

Notice of Meeting:

I hereby give notice that an ordinary Meeting of the Finance Committee will be held on:

Date: Tuesday 31 October 2023
Time: 9.30am
Meeting Room: Council Chamber and Audio Visual Link
Venue: Municipal Building, Garden Place, Hamilton

Lance Vervoort
Chief Executive

Finance and Monitoring Committee

Te Komiti Aroturuki me ngaa Puutea

OPEN LATE AGENDA

Membership

Chairperson Cr Maxine van Oosten
Heamana

Deputy Chairperson Cr Moko Tauariki
Heamana Tuarua

Members	Mayor Paula Southgate	Cr Ewan Wilson
	Deputy Mayor Angela O'Leary	Cr Louise Hutt
	Cr Melaina Huaki	Cr Geoff Taylor
	Cr Emma Pike	Cr Andrew Bydder
	Cr Mark Donovan	Cr Sarah Thomson
	Cr Anna Casey-Cox	Cr Kesh Naidoo-Rauf
	Vacancy	

Quorum: A majority of members (including vacancies)

Meeting Frequency: Six weekly

Amy Viggers
Mana Whakahaere
Governance Lead

24 October 2023

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Council Report

Item 10

Committee: Finance and Monitoring Committee

Date: 31 October 2023

Author: Tracey Musty

Authoriser: David Bryant

Position: Finance Director

Position: General Manager Business Services

Report Name: New Zealand Local Government Funding Agency - 2023 Annual Report

Report Status

Open

Purpose - *Take*

1. To inform the Finance and Monitoring Committee of the New Zealand Local Government Funding Agency (LGFA) Annual Report for the year ended 30 June 2023 and letter to shareholders.

Staff Recommendation - *Tuutohu-aa-kaimahi*

2. That the Finance and Monitoring Committee receives the report.

Executive Summary - *Whakaraapopototanga matua*

3. The annual report shows the LGFA to be profitable and cashflow positive.
4. The LGFA have met sixteen out of seventeen performance targets, with the exception being:

Performance Measure	Result to 31 December 2022
LGFA's total operating income for the period to 30 June 2023 is > \$12.2 million.	Total operating income at 30 June 2023 was \$11.6 million.

5. The LGFA were awarded the New Zealand Issuer of the Year for 2022 by KangaNews.
6. The LGFA has received an unqualified audit opinion from KPMG for the year ended 30 June 2023.
7. A dividend of \$1,712,500 has been declared by the LGFA Board for the year ended 30 June 2023. The portion of this dividend paid to Hamilton City Council was \$127,819.63.
8. Staff consider the matters in this report to have a low significance and that the recommendations comply with the Council's legal requirements.

Background - *Koorero whaimaarama*

9. The LGFA was established in December 2011 to provide long-dated borrowing, certainty of access to markets and to reduce the borrowing costs for the local government sector.

10. The LGFA shareholding comprises the New Zealand Government (20%) and thirty Councils (80%).
11. Hamilton City Council remains compliant with all LGFA Financial Covenants.

Discussion - *Matapaki*

Annual Report 2023

12. The 2023 Annual Report reflects the LGFA posting a net operating profit of \$2.5 million. The Agency has total assets of \$18.17 billion and shareholder equity of \$105.8 million.
13. The financial strength of the LGFA was affirmed by credit rating agency S&P Global Ratings, with a long-term local currency credit rating of AAA. The LGFA's foreign currency rating is AA+.
14. LGFA made longer dated borrowings options available to an increased number of council borrowers. At 30 June 2023, LGFA had loans outstanding of \$16.31 billion, an increase of \$2.27 billion from previous year, with the longest dated loans out to 14 years (2037).
15. The LGFA made a further three Green, Social and Sustainable Loan (GSS) loans during the year and launched Climate Action Loans (CALs) for council and CCO members.

Legal and Policy Considerations - *Whaiwhakaaro-aa-ture*

16. Staff confirm that recommendation complies with the Council's legal and policy requirements.

Wellbeing Considerations - *Whaiwhakaaro-aa-oranga tonutanga*

17. The purpose of Local Government changed on the 14 May 2019 to include promotion of the social, economic, environmental and cultural wellbeing of communities in the present and for the future ('the 4 wellbeings').
18. The subject matter of this report has been evaluated in terms of the 4 wellbeings during the process of developing this report.
19. The recommendations set out in this report are consistent with that purpose.
20. The LGFA's activity relates strongly to the economic wellbeing by delivery of key objectives to provide cost effective financing solutions for its Council membership base, as well as assisting the local government sector with significant matters such as Covid-19 response and the proposed Three Waters Reform Programme.
21. There were no environmental, social or cultural wellbeing implications identified in the development of this report.

Risks - *Tuuraru*

22. There are no known risks associated with the decisions required for this matter.

Significance & Engagement Policy - *Kaupapa here whakahira/anganui*

Significance

23. Staff have considered the key considerations under the Significance and Engagement Policy and have assessed that the recommendation(s) in this report has/have a low level of significance.

Engagement

24. Given the low level of significance determined, the engagement level is low. No engagement is required.

Attachments - *Ngaa taapirihanga*

Attachment 1 - LGFA Annual Report 30 June 2023

Attachment 2 - LGFA Letter to Shareholders 30 June 2023

Item 10

30 June 2023
ANNUAL REPORT

Benefiting communities through
delivering efficient financing
for local government.

Ka whiwhi painga ngā hāpori mā te
whakarato pūtea tōtika ki ngā kaunihera.

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LGFA acknowledge the assistance of the Department of Internal Affairs translation service for our Te Reo translations.



Cover photo: Taupo Town Centre Transformation project.
Taupo District Council.

Message from the Chair and Chief Executive

He karere mai i te Toihau me te Tumuaki

For the year ended 30 June 2023

During challenging market conditions of the past year, LGFA focused on meeting the funding requirements for our local government sector, at the same time extending our suite of innovative sustainable funding and lending products and achieving several key milestones.



New Zealand Issuer of the Year
New Zealand Local Government Funding Agency

On behalf of the directors and staff of LGFA, we are pleased to highlight the following developments over the past year. Of note was the launch of our Climate Action Loan product for council and CCO members and the establishment of our Sustainable Financing Bond Framework, culminating in our first sustainable bond issuance. We achieved a 100% satisfaction outcome in our member survey, 93% market share of council borrowing, and were awarded the KangaNews Issuer of the Year Award for 2022.

2022-23 Financial and operational performance

Over the past year we achieved 16 out of our 17 performance objectives, with the only objective missed being our target for total operating income. Total interest income for the financial year of \$763.6 million increased 94% over the 2021-22 result of \$393.5 million. Net operating profit of \$2.5 million decreased 77% on the 2021-22 result of \$10.7 million. The decrease in net operating profit was largely driven by our decision to adopt a prudent approach of borrowing longer than our term of lending and maintaining a larger than forecast liquid asset portfolio (LAP) during a period of rising interest rates and volatile market conditions. There was also a modest negative impact from our decision to offer a reduced lending margin to members for our sustainability lending products. Operating expenses at \$9.1 million were \$300k below the SOL budget. There were higher than expected NZX and registry fees related to increased bond issuance and lending, as well as additional legal costs incurred

with new member accessions and the Affordable Waters Reform. These were offset by lower than forecast consultancy and information technology costs and a lower NZDM facility utilisation fee.

Borrowing activity

Our bond issuance of \$3.5 billion over the year was significantly higher than the historical average of \$1.6 billion, with year-end outstandings totalling \$17.8 billion (including \$1.1 billion of treasury stock) across 11 bond maturities ranging between 2024 to 2037. The average term of issuance during the year at 5.5 years was shorter than the prior year of 6.2 years, reflecting the more challenging market conditions for issuance and closer matching to member borrowing.

In November 2022, we were delighted to be awarded the New Zealand Issuer of the Year at the 2022 KangaNews Awards, which recognises the support that we have received from investors, intermediaries and market participants, not just over the past year, but also throughout the past decade since we commenced issuance in 2012.

The highlight for the year was the \$1.1 billion issuance in April 2023 of a new 2030 bond, being the first issuance under our Sustainable Financing Bond Framework. The bond was well received by global and domestic investors who are looking for these types of sustainable finance investments for their portfolios. Our sustainable financing bond is backed by our sustainable asset pool comprising Green Social and Sustainability Loans and Climate Action Loans to members.

As our issuance has grown it has been pleasing to see a corresponding rise in our offshore investor base who have increased their holdings over the last year by \$1.8 billion to \$6.2 billion, or an equivalent 37% of our total bonds on issue.

Over the past year, the spreads on LGFA bonds narrowed against New Zealand Government Bonds (NZGB) but widened over swap. LGFA bond spreads to NZGB beyond 2024 narrowed between 4 bps (2029 bond) and 22 bps (2025 bond) while LGFA bond spreads to swap widened between 6 bps (2025 bond) and 25 bps (2029 and 2031 bonds). This change was similar to the spread movements on other high-grade issuers and also reflected the large amount of bond issuance undertaken by LGFA during the year.

Market conditions during a period of monetary policy tightening contributed to a significant lift in yields over the year, with outright yields rising between 56 bps (2037 maturity) and 179 bps (2024 maturity).

Lending to the sector

Over the past year, we welcomed two new member councils with Dunedin City Council and Environment Southland joining as guarantors. Total council membership is now 77 out of the 78 councils in New Zealand. In addition, Dunedin City Treasury Limited and Westland Holdings Limited joined as Council-controlled organisation (CCO) members, bringing the number of CCO members to three.

Long-dated lending to members over the year was a record \$3.9 billion as members refinanced their April

2023 loans and increased their borrowing to finance infrastructure projects. Our estimated market share of total council borrowing of 93% for the year to 30 June 2023 was a historical high compared to the long-term average of 77%.

The average tenor of long-dated borrowing by members of 5.2 years over the 12-month period was shorter than the prior year's 6.2 years.

Short-dated lending for terms less than 12 months continues to be well supported by members. At June 2023, there were \$548 million of short-term loans outstanding to 37 members, a 14% increase over last year's \$478 million outstanding to 31 members.

New products and initiatives

In addition to the launch of our new Sustainable Financing Bond Framework, another significant sustainability initiative was the December 2022 launch of our Climate Action Loan (CAL) lending product which provides a discounted loan margin for members who have an approved greenhouse gas emission reduction plan in place and are meeting their reduction targets. This new initiative was well received by members, with \$521 million lent to three councils under the CAL lending product.

Over the year, members borrowed \$232 million under our Green, Social and Sustainability (GSS) lending product launched in October 2021, taking the year end outstanding of GSS loans to \$295 million to five members.

New standby facilities totalling \$55 million were approved for five new members, increasing the total of standby products to 16 members totalling \$727 million.

Climate-related events and the proposed Affordable Waters Reform Programme

Over the year, the local government sector dealt with significant climate-related events as well as the proposed Affordable Waters Reform Programme. LGFA has been assisting Central Government and our members as they work through the funding and financing implications for the proposed Affordable Waters Reform Programme. The transition date for the three waters related assets, debt, and revenue into the Water Services Entities (WSEs) has been extended to allow for WSEs to be established over the period from 1 July 2024 to 1 July 2026.

LGFA continues to assist the local government sector-led initiative in developing a Ratepayer Financing Scheme which is being developed with the objective of providing some financial relief options to ratepayers.

2023 LGFA Taituarā Local Government Excellence Awards

LGFA was the headline sponsor for the 2023 LGFA Taituarā Local Government Excellence Awards for the third consecutive year, and the ninth year that we have supported the awards. We were pleased that the winner of the Supreme Award was the Takai Here Tāngata Project (binding people together). Takai Here Tāngata is an urban village of 19 houses situated on Te Ara o Takapā in Taitā, Lower Hutt. It is the result of Hutt City's innovative partnership with its property arm Urban Plus Ltd, Kahungunu Whānau Services, and Te

Rānanganui o Te Āti Awa and is regarded as a proof of concept for a highly transferable methodology that has the potential to deliver housing at scale.

Acknowledgments

We would like to acknowledge the contribution made to LGFA by John Avery who retired as Director at the November 2022 AGM after eleven years of service. John, an independent director from establishment, played a significant role in developing our culture and guiding the organisation to where it is today, as well as representing the Board on many council visits with staff. We thank John and would like to wish him all the best for his future endeavours.

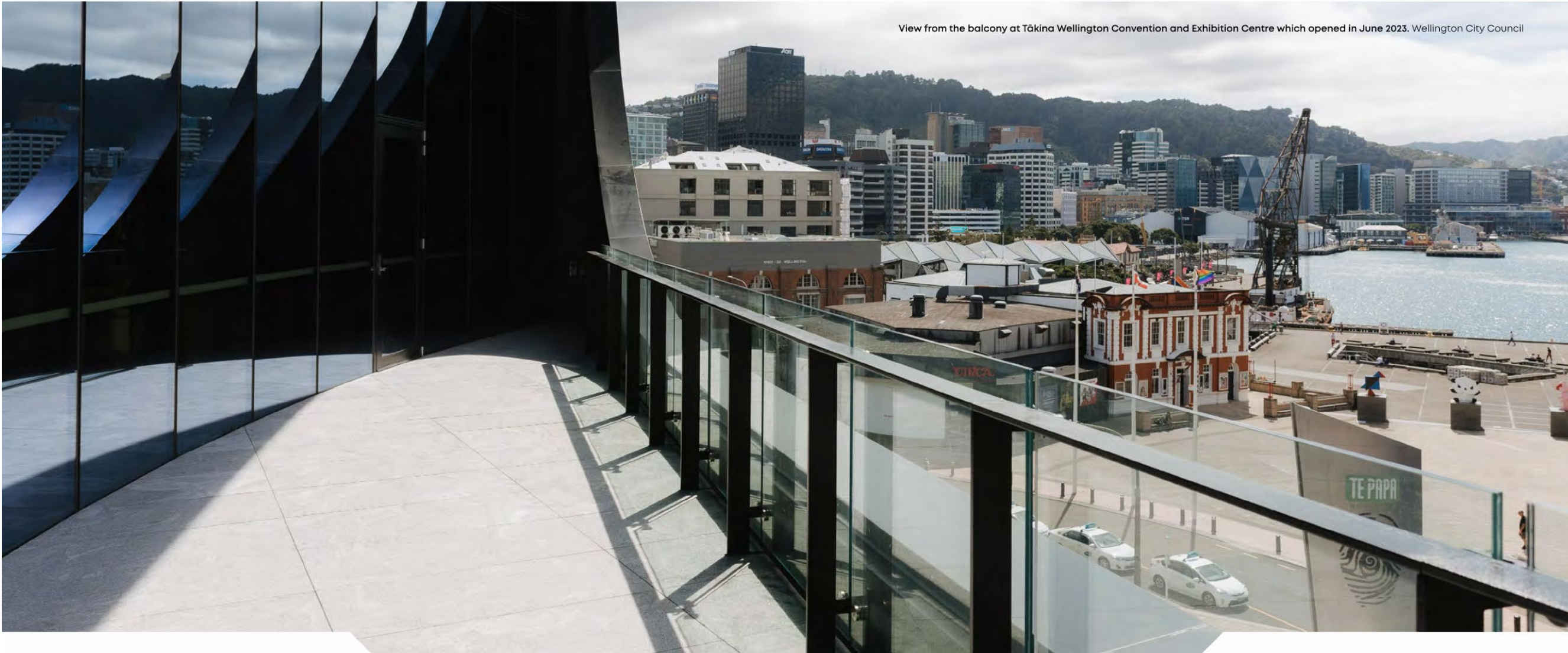
We acknowledge the support of the wider local government sector as they face several challenges including the uncertainty and additional workload from the proposed Affordable Waters Reform Programme,

rising cost pressures and ratepayer affordability issues, the challenges to balance budgets and funding depreciation as well as the impact from North Island weather events.

The Agency's work cannot be implemented without the support of our staff, fellow directors, Shareholders Council, New Zealand Debt Management (NZDM) and Central Government, all whose efforts should be acknowledged. We believe the Agency's future remains positive and look forward to working with all stakeholders in the year ahead.

Craig Stobo
Chair

Mark Butcher
Chief Executive



Performance highlights

Ko ngā tino hua

Bonds issued over the financial year

\$3,533
million

Total interest income

\$763.6
million ▲ 94%
Increase over 2021-22 year

Lending to members over the financial year

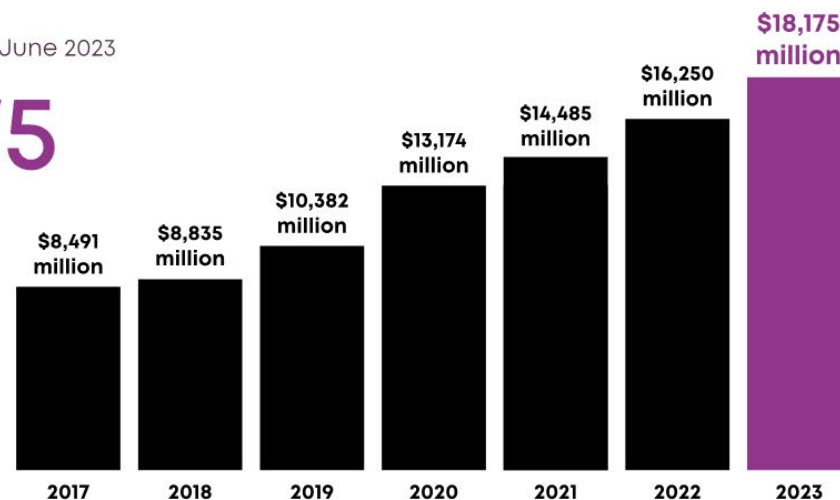
\$3,951
million

Net operating profit

\$2.5
million ▼ 77%
Decrease over 2021-22 year

Total assets at 30 June 2023

\$18,175
million



Liquidity at 30 June 2023

\$226 million
Cash

\$1,128 million
Marketable securities

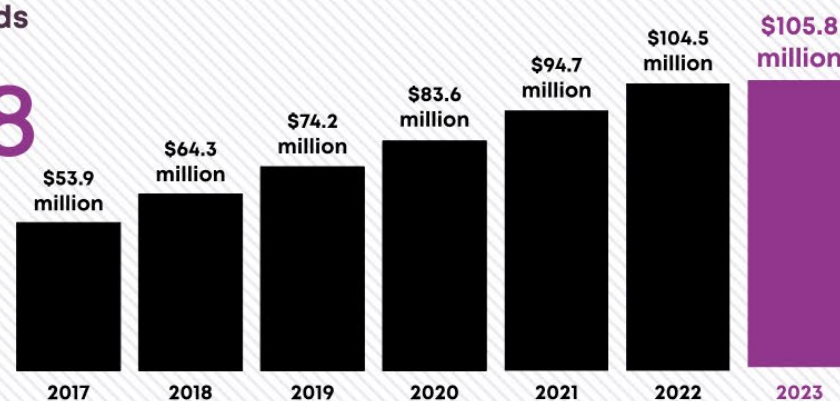
\$348 million
Deposits

\$1,100 million
Treasury stock for repurchase

\$1,500 million
Government committed liquidity facility

Shareholder funds at 30 June 2023

\$105.8
million



Fully paid shares

\$25.0
million

Retained earnings

\$80.8
million

Borrower notes

Borrower notes are subordinated debt instruments which LGFA may convert into redeemable shares under prescribed circumstances.

\$360
million

Performance against objectives

Ko ngā whakatutukinga ki ngā whāinga

The statement of service performance provides a summary of LGFA's performance against the objectives and performance targets set out in the LGFA Statement of Intent 2022-25 (SOI)

2022-23 Objectives and performance targets

LGFA objectives and performance targets for 2022-23 fall within the following five strategic priorities which encompass our shareholders' foundation objectives and guide the Board and management in determining our strategy:

- Governance, capability and business practice
- Optimising financing services for local government
- Environmental and social responsibility
- Effective management of loans
- Industry leadership and engagement

Our quarterly reports to shareholders provide more detail on our performance against objectives and performance targets. The reports for the four quarters ended June 2023 are available on the LGFA website.

Governance, capability and business practice

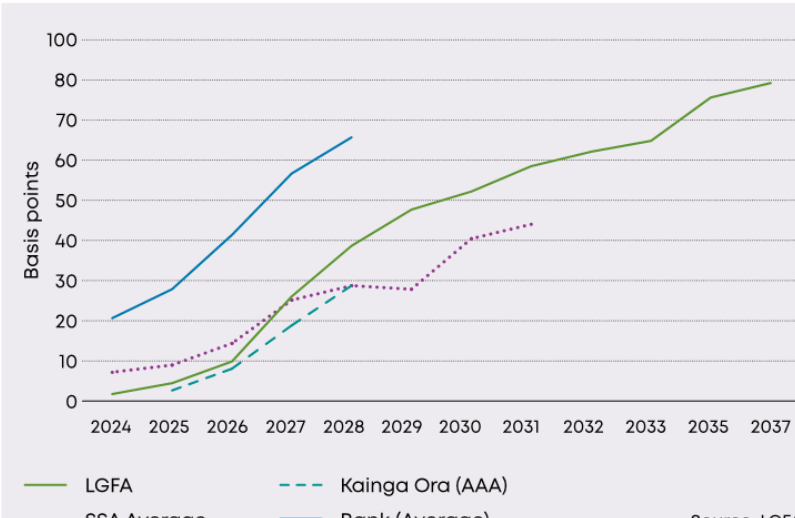
LGFA is committed to best practice corporate governance to ensure its long-term sustainability and success.

Objectives	Our performance to 30 June 2023
Demonstrate best practice corporate governance.	<p>LGFA is committed to demonstrating best practice corporate governance and we report annually on our compliance with the eight core principles underpinning the NZX Corporate Governance Best Practice Code.</p> <p>The 2023 Annual Report is the most recent report with commentary on our compliance with the NZX Code.</p>
Set and model high standards of ethical behaviour.	<p>LGFA has adopted a formal Code of Ethics, incorporating its Conflicts of Interest and Code of Conduct policies, which sets out the standards and values that directors and employees are expected to follow.</p>
Ensure products and services offered to participating borrowers are delivered in a cost-effective manner.	<p>LGFA prepares annual operating budgets and monitors progress against these monthly. Our performance against our financial targets for the year-ended 30 June 2023 is summarised below under our performance targets.</p>
Be a good employer by providing safe working conditions, training and development and equal opportunities for staff.	<p>LGFA is committed to being a good employer and we report our employment practices annually in our Annual Report.</p> <p>The 2023 Annual Report is our most recent report outlining our health and safety and wellbeing practices and policies, compliance with the Health and Safety at Work Act, diversity and inclusion and capability and development.</p>

Performance targets	2022-2023 target	Our performance to 30 June 2023
Comply with the Shareholder Foundation Policies and the Board-approved Treasury Policy at all times.	No breaches.	✓ No breaches.
Maintain LGFA's credit rating equal to the New Zealand Government sovereign rating where both entities are rated by the same Rating Agency.	LGFA credit ratings equivalent to NZ Sovereign.	✓ Our ratings remain equivalent to the New Zealand Government for both S&P Global Ratings and Fitch Ratings. Fitch Ratings upgraded LGFA Foreign Currency Rating to AA+ on 16 Sept 2022. S&P Global Ratings affirmed our domestic currency credit rating at AAA in March 2023.
LGFA's total operating income for the period to 30 June 2023.	> \$12.2 million.	✗ Not met. Total operating income \$11.6 million at 30 June 2023.
LGFA's total operating expenses for the period to 30 June 2023.	< \$9.4 million.	✓ Met. Operating expenses \$9.1 million at 30 June 2023.

Optimising financing services for local government

LGFA's primary objective is to optimise the terms and conditions of the debt funding it provides to participating borrowers. Amongst other things, LGFA will achieve this by delivering operational best practice and efficiency across our lending products and services.

Objectives	How we measure our performance												
Provide interest cost savings relative to alternative sources of financing.	<p>Comparison to other high-grade issuers – secondary market spread to swap (bps)</p> <p>LGFA's borrowing margins are comparable to other high-grade issuers in the New Zealand capital markets.</p>  <p>Source: LGFA</p> <p>Supranational, sovereign and agency issuers</p> <table><tr><td>Kainga Ora (AAA)</td><td>KBN (AAA)</td></tr><tr><td>Asian Development Bank (AAA)</td><td>Rentenbank (AAA)</td></tr><tr><td>IADB (AAA)</td><td>World Bank (AAA)</td></tr><tr><td>International Finance Corp (AAA)</td><td>Nordic Investment Bank (AAA)</td></tr></table> <p>Banks</p> <table><tr><td>ASB (AA-)</td><td>ANZ (AA-)</td><td>BNZ (AA-)</td><td>Westpac Bank (AA-)</td></tr></table>	Kainga Ora (AAA)	KBN (AAA)	Asian Development Bank (AAA)	Rentenbank (AAA)	IADB (AAA)	World Bank (AAA)	International Finance Corp (AAA)	Nordic Investment Bank (AAA)	ASB (AA-)	ANZ (AA-)	BNZ (AA-)	Westpac Bank (AA-)
Kainga Ora (AAA)	KBN (AAA)												
Asian Development Bank (AAA)	Rentenbank (AAA)												
IADB (AAA)	World Bank (AAA)												
International Finance Corp (AAA)	Nordic Investment Bank (AAA)												
ASB (AA-)	ANZ (AA-)	BNZ (AA-)	Westpac Bank (AA-)										
Offer flexible short and long-term lending products that meet the borrowing requirements for borrowers.	<p>LGFA provides members with short term loans (less than one year), long term loans on either a floating or fixed rate basis (between one year and April 2037), Green Social and Sustainable Loans, Climate Action Loans and standby facilities.</p> <ul style="list-style-type: none">Over the year-ended June 2023, our members borrowed \$3.95 billion in 380 long term loans across maturity dates ranging between 2023 and 2033.As at June 2023 there was \$548 million short-term loans outstanding to 37 members.As at June 2023, standby facilities totalled \$727 million across 13 members.												
Deliver operational best practice and efficiency for lending services.	<p>Over the year-ended 30 June 2023, LGFA operations staff successfully:</p> <ul style="list-style-type: none">settled 2,039 new trades with a gross value of \$10.0 billion,processed 13,527 cash flows with a gross value of \$34.0 billion, andrate set 9,314 existing trades. <p>There were no LGFA settlement errors over the year.</p>												
Ensure certainty of access to debt markets, subject always to operating in accordance with sound business practice.	<p>There was strong activity in LGFA bonds in both the primary market (tender or syndicated issuance) and secondary market (between banks and investors). Over the year-ended 30 June 2023, we issued \$3.553 billion of primary bonds and secondary market turnover totalled \$10.5 billion.</p>												

Performance targets	2022-2023 target	Our performance to 30 June 2023
Share of aggregate long-term debt funding to the Local Government sector.	> 80%	✓ Met – 93.3% as at 30 June 2023
Total lending to Participating Borrowers.	> \$15,004 million	✓ Met – \$16,314 million as at 30 June 2023
Conduct an annual survey of Participating Borrowers who borrow from LGFA as to the value added by LGFA to the borrowing activities.	> 85% satisfaction score	✓ 100% satisfaction score in August 2022 Stakeholder Survey.
Successfully refinance existing loans to councils and LGFA bond maturities as they fall due.	100%	✓ Met
Meet all lending requests from Participating Borrowers, where those requests meet LGFA operational and covenant requirements.	100%	✓ Met

Effective management of loans

LGFA will ensure its loan book remains at a high standard by ensuring it understands each participating borrower's financial position. LGFA manages its assets within an appropriate risk management framework to ensure shareholder value is not compromised.

Objectives	Our performance to 30 June 2023
Proactively monitor and review each Participating Borrower's financial position, including its financial headroom under LGFA policies. Analyse finances at the Council group level where appropriate and report to shareholders.	Over the year, we reviewed council agendas and management reports on an ongoing basis for all members on the LGFA borrower watch-list. We have received compliance certificates for LGFA covenants from all of our members with debt outstanding at June 2022 and no council has requested that they be measured on a group basis. Some certificates have been provided based upon unaudited financial statements given the delays in providing final audit signoff due to audit shortages.
Endeavour to meet each participating borrower annually, including meeting with elected officials as required, or if requested.	We met with all borrowers over the course of the year.

Performance targets	2022-2023 target	Our performance to 30 June 2023
Review each participating borrower's financial position under LGFA policies.	100%	✓ Met
Arrange to meet each Participating Borrower at least annually, including meeting with elected officials as required, or if requested.	100%	✓ Met

Environmental and social responsibility

LGFA recognises the risks inherent in climate change and supports councils shift to a low-carbon economy. LGFA will exhibit a sense of social and environmental responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so.

Objectives	Our performance to 30 June 2023
Assist the local government sector in achieving their sustainability and climate change objectives.	<p>Over the year to 30 June 2023, we approved GSS loans to Hutt City Council for the Naenae swimming pool, Whangārei District Council for the Civic Centre, and approved our first eligible social lending project for Christchurch City Council's Ōtautahi Community Housing Trust.</p> <p>At 30 June 2023, we had approved five GSS loans with a combined approved value of \$562 million of which \$294.5 million had been advanced.</p> <p>On 1 December 2022, we launched Climate Action Loans (CALs) which provide a discounted loan margin for members who have implemented a Greenhouse Gas Emission Reduction Plan and meet their emission reduction targets.</p> <p>At 30 June 2023, we had approved CAL loans to Auckland Council, Hutt City Council and Dunedin City Treasury Limited, with combined advances totalling \$521 million.</p> <p>In September 2022, LGFA published our report on climate emergencies declared by New Zealand councils over 2019-2020 (16 out of 78), their subsequent responses and any opportunities for LGFA. A copy of this report is available from our website: Review of Climate Emergency Declarations and Responses by Councils.</p>
Improve sustainability outcomes within LGFA.	<p>In 2021, LGFA committed to reducing our carbon emissions over time, with our target of cutting per employee emissions by 30% by 2030, compared with a 2018/19 base year.</p>

Performance targets	2022-2023 target	Our performance to 30 June 2023
Comply with the Health and Safety at Work Act 2015.	No breaches	✔ No breaches.
Maintain Toitū net carbonzero certification.	Net carbonzero certification maintained.	✔ Toitū Net Carbon-zero recertification approved 11 October 2022.
Meet reduction targets outlined in our carbon reduction management plan.	Reduction targets met.	✔ Met. Refer to the emissions table on page 43 that highlights the uncertainties that exist in regards to emission reporting.
Increase our GSS lending book.	Two new participating borrowers enter into GSS loans.	✔ Three new participating borrowers approved for GSS lending.
Ensure Annual Report is prepared in compliance with applicable GRI Standards.	100%	✔ 2023 Annual Report prepared to meet the requirements of the Global Reporting Initiative (GRI) Standards (core option).
Meet all mandatory climate reporting standards.	100%	✔ There are no mandatory climate reporting standards applying at the date of this report. LGFA has elected to prepare this annual report in compliance with the GRI standard (core option).

Industry leadership and engagement

LGFA will take a proactive role to enhance the financial strength and depth of the local government debt market and will work with key central government and local government stakeholders on sector issues.

Objectives	How we measure our performance
Take a proactive role to enhance the financial strength and depth of the local government debt market and work with key central government and local government stakeholders on sector and individual council issues.	<p>This year we have introduced two new webinars for members:</p> <ul style="list-style-type: none">• LGFA Quarterly Update• Economic and Financial Market Update webinars <p>These inaugural webinars were well attended by participants and will be formalised as ongoing quarterly events.</p> <p>Over the year we met with Treasury, the National Transition Unit and Policy teams at DIA (and their advisers) regarding the proposed Affordable Water Reform, working actively on issues relating to the transition of council debt, as well as the borrowing options for the Water Services Entities (WSEs) following transition. In consultation with key stakeholders, we are considering what potential role LGFA could play under the proposed Affordable Waters Reform programme.</p>
Assist the local government sector with significant matters such as COVID -19 response and the proposed Three Waters Reform Programme.	<p>LGFA provided input into the Ratepayer Financing Scheme (RFS) project managed by a group of councils with advice from Cameron Partners. If successful, the RFS could offer temporary financial relief to ratepayers via rates postponement. LGFA is not contributing financially to this project but providing intellectual capital and assistance.</p> <p>We are continuing work on initiatives to reduce compliance and documentation requirements for members when they borrow. These initiative relate to a universal stock security certificate and delegation of a CEO certificate for borrowing.</p>
Support councils and CCOs in the development of reporting disclosures of the impacts of sector activity on climate change.	

About us

Mō mātou

The New Zealand Local Government Funding Agency Ltd (LGFA) specialises in financing the New Zealand local government sector, the primary objective being to optimise the terms and conditions of the debt funding it provides to participating borrowers.

LGFA was established to raise debt on behalf of councils on terms that are more favourable to them than if they raised the debt directly. Since establishment, LGFA has expanded its product suite to include short-dated lending, bespoke lending, standby facilities, sustainable financing alternatives and lending to CCOs. LGFA membership has grown to include 77 out of the 78 councils in New Zealand and has provided 93% of council borrowing in the year to June 2023.

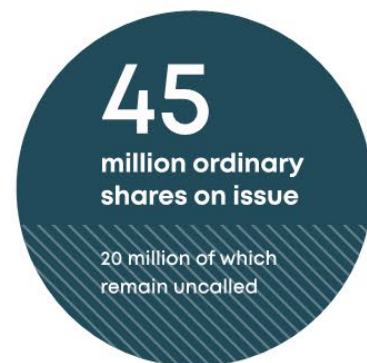
Please refer to our website lgfa.co.nz for more information on LGFA, including our Statement of Intent and Quarterly Reports.

Incorporated on 1 December 2011 under the Companies Act 1993

Enabled by Local Government Borrowing Act 2011

Council-controlled organisation under the Local Government Act 2002

Ownership

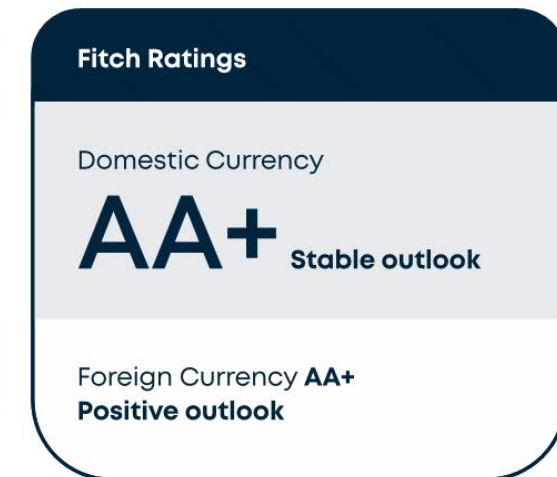


80%
30 Councils

20%
New Zealand Government

Share ownership is restricted to New Zealand Government or councils.

Credit rating at 30 June 2023



Guarantee structure

All shareholder councils are guarantors as well as councils with total borrowings over \$20 million.

LGFA's securities obligations are guaranteed by council guarantors.

A council's obligations under the guarantee is secured against rates revenue.

Governance overview

31 Shareholders

30 Councils

80%

New Zealand Government

20%

Shareholders' Council

Page 57

The **Shareholders' Council** comprises five to ten appointees from shareholders. The role of the Shareholders' Council is to:

- Review and report** performance of LGFA and the Board;
- Recommend** to Shareholders as to the **appointment, removal, replacement and remuneration of directors**;
- Recommend** to Shareholders as to any **changes to policies**, or the Statement of Intent (SOI), requiring their approval;
- Update Shareholders** on LGFA matters and to coordinate Shareholders on governance decisions.

Board

Page 50

The **Board** is responsible for the strategic direction and control of LGFA's activities. The Board guides and monitors the business and affairs of LGFA, in accordance with the:

- Local Government Act 2002;
- Local Government Borrowing Act 2011;
- Companies Act 1993;
- LGFA's Constitution;
- LGFA Shareholder Agreement;
- LGFA Annual Statement of Intent.

The Board comprises **five independent** directors and **one non-independent** director.

Bonds listed on NZX Debt Market

.....

Issue of securities to the public under the Financial Markets Conduct Act and regulated by Financial Markets Authority

.....

Supervised by independent trustee

Our history
by financial year

2011 Incorporated Dec 2011

2012 Commenced bond issuance February 2012
Transitioned to Financial Markets Conduct Act
Commenced short-term lending to councils
KangaNews NZ Domestic Issuer of the Year – 2012
Commenced LGFA Bill issuance
INFINZ award for Best Bond issue of 2012
LGFA Bonds listed on NZX November 2015
Inaugural LGFA Borrowers Forum

2013 Inaugural dividend of \$1.5m declared
Implemented Treasury Management System and transitioned outsourced services from NZDMO

2014 Bespoke lending introduced

2015

2016 Bond lending facility established October 2016

2017 First LGFA bond not matched to a New Zealand Government bond maturity

2018 Inaugural syndication (\$1.0b)

2019 KangaNews. NZ Domestic Bond Deal of the Year
Reserve Bank adds LGFA bonds to its Large Scale Asset Purchase programme. April 2020

2020 S&P AAA credit rating achieved

2021 Toitū ZeroCarbon certification

2022 Record \$3.9 billion bonds issued in year
Future Director programme launched
Commenced lending to Council-controlled Organisations
Green, social and sustainability lending offered to members
10 year anniversary

2023 KangaNews New Zealand Issuer of the Year 2022
Inaugural Sustainable Financing Bond issue (\$1.1b)
Climate Action Loans offered to members

Finance and Monitoring Committee Agenda 31 October 2023- OPEN

Page 16 of 58

LGFA bonds on issue

Ko ngā pūtea taurewa
pūmau kua tukuna e te LGFA

How we issue bonds

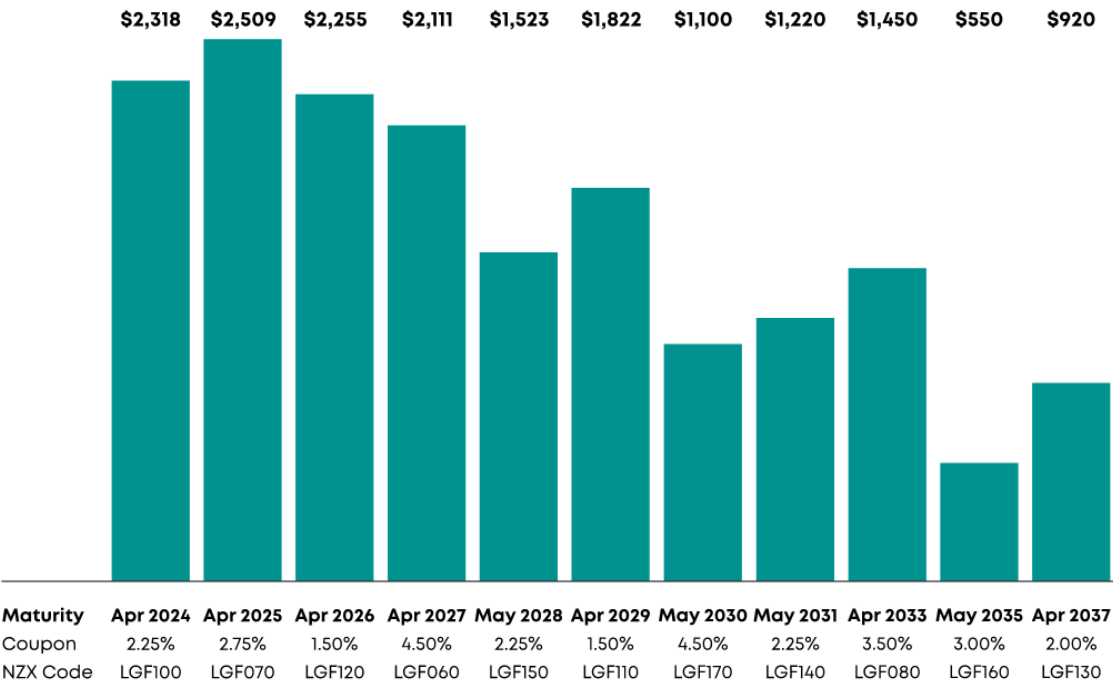
LGFA typically issues a new bond maturity via an initial syndication and then through ongoing regular scheduled tenders.

- Preferred bond tender sizes are between \$150 million to \$225 million with at least three maturities offered at each tender.
- LGFA bonds match NZGB where possible for maturity and coupon.
- Approved Issuer Levy is paid on behalf of offshore holders.
- Target issuance of \$1 billion plus per maturity over time with a cap of \$3.0 billion per maturity to support market liquidity.
- All bonds have been issued in New Zealand dollar (NZD) to June 2023, but have capability to issue non-NZD bonds if required.
- All LGFA retail bonds are listed on the NZX.

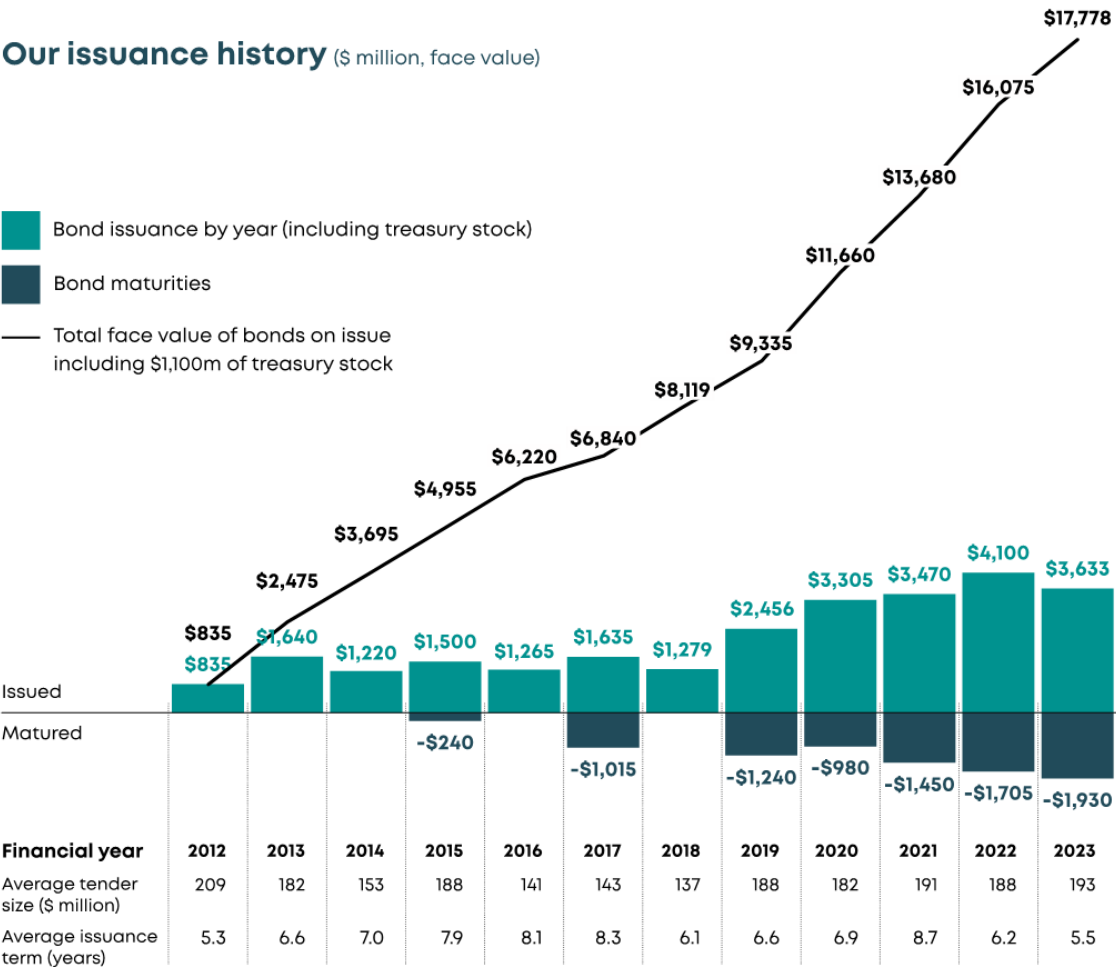
LGFA NZX-listed bonds on issue (\$ million, face value)

As 30 June 2023 : \$17,778 million

Includes \$1,100 million treasury stock (refer note 16, page 79)



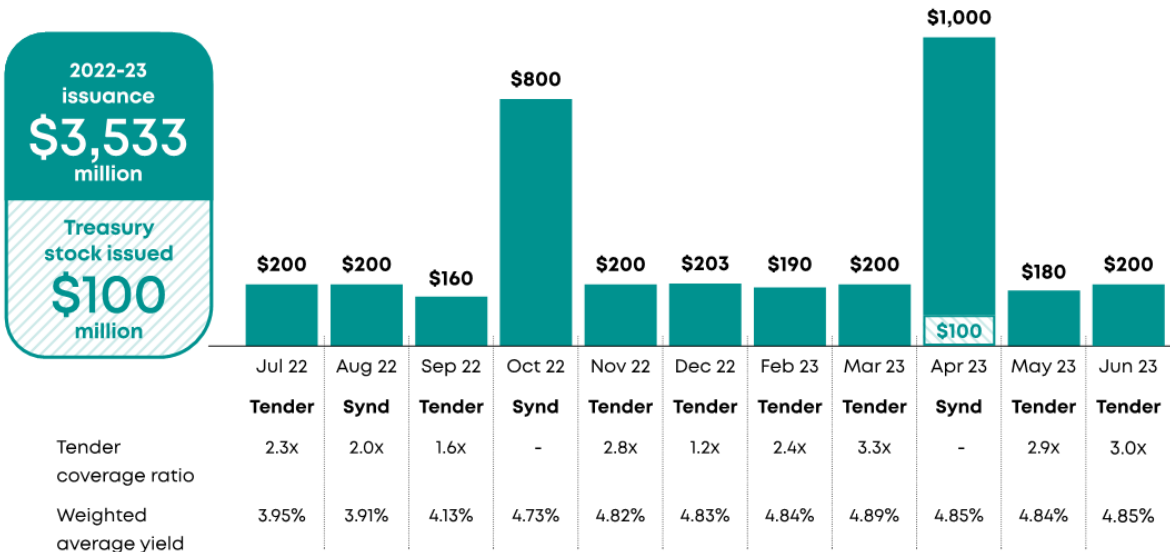
Our issuance history (\$ million, face value)



2022-23 issuance by maturity (\$ million, face value)
LGFA bond issuance by bond maturity over the 12-month period to 30 June 2023

Tenders	Apr 24	Apr 25	Apr 26	Apr 27	May 28	Apr 29	May 30	May 31	Apr 33	May 35	Apr 37	Total
6 Jul 22	-	70	-	70	-	-	-	60	-	-	-	200
10 Aug 22	60	-	50	-	50	-	-	40	-	-	-	200
7 Sep 22	-	60	-	60	-	-	-	-	-	-	40	160
9 Nov 22	50	-	100	-	-	-	-	50	-	-	-	200
14 Dec 22	-	-	90	-	53	-	-	-	60	-	-	203
1 Feb 23	60	-	-	70	-	-	-	60	-	-	-	190
1 Mar 23	50	-	50	-	-	50	-	-	-	-	50	200
10 May 23	-	-	-	60	-	60	-	60	-	-	-	180
7 Jun 23	-	-	50	-	50	50	-	-	-	50	-	200
2022/23 tender issuance	220	130	340	260	153	160	-	270	60	50	90	1,733
2022/23 syndication	-	600	-	-	-	200	1,000	-	-	-	-	1,800
Total 2022/23 issuance	220	730	340	260	153	360	1,000	270	60	50	90	3,533
Prior issuance	1,998	1,679	1,815	1,751	1,270	1,362	-	850	1,290	400	730	13,145
Total bonds excluding Treasury Stock	2,218	2,409	2,155	2,011	1,423	1,722	1,000	1,120	1,350	450	820	16,678
Treasury stock	100	100	100	100	100	100	100	100	100	100	100	1,100
Total bonds on issue	2,318	2,509	2,255	2,111	1,523	1,822	1,100	1,220	1,450	550	920	17,778

2022-23 issuance by month (\$ million, face value)



LGFA bond margins (basis points)
LGFA bond margins against swap and NZGB

Margin to swap	Apr 24	Apr 25	Apr 26	Apr 27	May 28	Apr 29	May 30	May 31	Apr 33	May 35	Apr 37
30 June 2022	(10)	(1)	5	16	19	28	N/A	40	49	62	70
30 June 2023	2	5	11	29	43	53	58	65	72	84	88
Annual change	(12)	(6)	(6)	(13)	(24)	(25)	N/A	(25)	(23)	(22)	(18)

Margin to NZGB	Apr 24	Apr 25	Apr 26	Apr 27	May 28	Apr 29	May 30	May 31	Apr 33	May 35	Apr 37
30 June 2022	34	53	55	61	60	61	N/A	66	65	78	79
30 June 2023	41	31	43	47	54	57	56	60	60	64	63
Annual change	(7)	22	12	14	6	4	N/A	6	5	N/A	16

LGFA bond margins to swap over NZGB over the 36 months to 30 June 2023 (basis points)



Average of all LGFA bonds outstanding.
Secondary market levels as at end of each month taken from end of month closing rate sheets published by NZ banks.

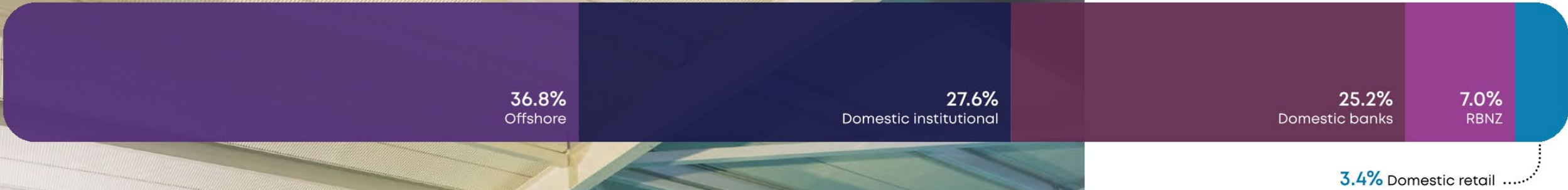
LGFA is New Zealand's largest:

- issuer of NZD bonds (excluding New Zealand Government)
- issuer of debt listed on the NZX

New bond maturities issued in the year to June 2023:

May 2030
4.5% coupon

LGFA bond holders by investor group as at 30 June 2023



Largest issuers of NZD bonds by outstandings

excluding NZGB, as at 30 June 2023 (\$ million)



LGFA estimate, based on aggregation of Bloomberg sourced data.

pool side at Wai o Rua – Stratford Aquatic Centre which opened in October 2022. Stratford District Council

LGFA members

Ko ngā LGFA e noho mema ana

LGFA operates with the primary objective to optimise the terms and conditions of the debt funding it provides to participating borrowers.

Participating councils and Council-controlled organisations are collectively referred to as LGFA members.

Among other things this includes:

- Providing savings in annual interest costs
- Offering short and long-term borrowings with flexible lending terms
- Enhancing the certainty of debt markets
- Being the funder of choice for New Zealand councils.

To become a member of LGFA, a council or CCO is required to complete a formal application. Following an application for membership, LGFA management completes a review of the prospective member's financial position and its ability to comply with LGFA's financial covenants, which is considered by the Board who approve all council memberships. All member councils are required to complete a compliance certificate each year which certifies that the council has complied with LGFA's financial covenants. In addition, LGFA monitors all members' annual reports, annual plans and long term plans on an ongoing basis to ensure that the financial forecasts are consistent with the LGFA financial covenants.

Total member borrowings at 30 June 2023 (\$ million)

Member type	Number of councils	Amount borrowed	% of total borrowings
Guarantors	70	16,184	99.0%
Non guarantors	8	167	1.0%
Total	78	16,351	100%

Member	Amount borrowed	% of total borrowings
Auckland Council	3,226	19.7%
Christchurch City Council	2,200	13.5%
Wellington City Council	1,179	7.2%
Tauranga City Council	824	5.0%
Hamilton City Council	804	4.9%
Greater Wellington Regional Council	678	4.1%
Queenstown Lakes District Council	510	3.1%
Hutt City Council	373	2.3%
Rotorua District Council	353	2.2%
Hastings District Council	295	1.8%
57 councils	5,909	36.2%
	16,351	100%

Loans to Auckland Council are limited to a maximum of 40% of total loans

As at 30 June 2023

77 councils 3 council-controlled organisation were eligible to borrow from LGFA

30 member councils are shareholders

70 member councils were guarantors

THE NUMBERS

Over the 12 months to 30 June 2023

\$3,921 million of long term loans

At 30 June 2023

\$548 million of short term loans

were issued to

66 members

across

380 individual term loans

with an average term of

5.21 borrowing years

were outstanding to

37 members

Member councils are required to comply with LGFA financial covenants at all times

93%

LGFA's estimated market share of local government debt

LGFA member councils by year of joining

North Island

2011-12	Auckland Council	Shareholder
2011-12	Bay of Plenty Regional Council	Shareholder
2011-12	Greater Wellington Regional Council	Shareholder
2011-12	Hamilton City Council	Shareholder
2011-12	Hastings District Council	Shareholder
2011-12	Masterton District Council	Shareholder
2011-12	New Plymouth District Council	Shareholder
2011-12	Otorohanga District Council	Shareholder
2011-12	South Taranaki District Council	Shareholder
2011-12	Taupo District Council	Shareholder
2011-12	Tauranga City Council	Shareholder
2011-12	Waipa District Council	Shareholder
2011-12	Wellington City Council	Shareholder
2011-12	Western Bay of Plenty District Council	Shareholder
2011-12	Whangārei District Council	Shareholder
2012-13	Far North District Council	Borrower and Guarantor
2012-13	Gisborne District Council	Shareholder
2012-13	Hauraki District Council	Shareholder
2012-13	Horowhenua District Council	Shareholder
2012-13	Hutt City Council	Shareholder
2012-13	Kapiti Coast District Council	Shareholder
2012-13	Manawatu District Council	Shareholder
2012-13	Matamata-Piako District Council	Borrower and Guarantor
2012-13	Palmerston North City Council	Shareholder
2012-13	Rotorua District Council	Borrower and Guarantor
2012-13	Thames-Coromandel District Council	Shareholder
2012-13	Waikato District Council	Borrower and Guarantor
2012-13	Whakatane District Council	Shareholder
2012-13	Whanganui District Council	Shareholder
2013-14	Horizons District Council	Borrower and Guarantor
2013-14	Upper Hutt City Council	Borrower and Guarantor
2014-15	Opotiki District Council	Borrower
2014-15	Porirua City Council	Borrower and Guarantor
2014-15	Tararua District Council	Borrower and Guarantor
2015-16	Kaipara District Council	Borrower and Guarantor
2015-16	South Wairarapa District Council	Borrower and Guarantor
2016-17	Central Hawkes Bay District Council	Borrower and Guarantor
2016-17	Northland Regional Council	Borrower and Guarantor
2016-17	Waitomo District Council	Borrower and Guarantor
2017-18	Rangitikei District Council	Borrower
2017-18	Stratford District Council	Borrower and Guarantor
2018-19	Hawkes Bay Regional Council	Borrower and Guarantor
2018-19	Ruapehu District Council	Borrower and Guarantor
2018-19	Waikato Regional Council	Borrower and Guarantor
2018-19	Wairoa District Council	Borrower
2019-20	Taranaki Regional Council	Borrower and Guarantor
2019-20	Carterton District Council	Borrower
2020-21	Kawerau District Council	Borrower
2020-21	Napier City Council	Borrower and Guarantor
2020-21	South Waikato District Council	Borrower and Guarantor

2011-2012 (18)	2015-2016 (5)	2019-2020 (3)
2012-2013 (21)	2016-2017 (3)	2020-2021 (5)
2013-2014 (3)	2017-2018 (3)	2021-2022 (3)
2014-2015 (3)	2018-2019 (8)	2022-2023 (2)

South Island

2011-12	Christchurch City Council	Shareholder
2011-12	Selwyn District Council	Shareholder
2011-12	Tasman District Council	Shareholder
2012-13	Ashburton District Council	Borrower and Guarantor
2012-13	Grey District Council	Borrower and Guarantor
2012-13	Marlborough District Council	Shareholder
2012-13	Nelson City Council	Borrower and Guarantor
2012-13	Queenstown Lakes District Council	Borrower and Guarantor
2012-13	Timaru District Council	Borrower and Guarantor
2012-13	Waimakariri District Council	Shareholder
2013-14	Hurunui District Council	Borrower and Guarantor
2015-16	Buller District Council	Borrower
2015-16	Canterbury Regional Council	Borrower and Guarantor
2015-16	Gore District Council	Borrower and Guarantor
2017-18	Westland District Council	Borrower and Guarantor
2018-19	Clutha District Council	Borrower and Guarantor
2018-19	Invercargill City Council	Borrower and Guarantor
2018-19	Mackenzie District Council	Borrower
2018-19	West Coast Regional Council	Borrower
2019-20	Kaikoura District Council	Borrower
2020-21	Central Otago District Council	Borrower and Guarantor
2020-21	Waitaki District Council	Borrower and Guarantor
2021-22	Otago Regional Council	Borrower and Guarantor
2021-22	Southland District Council	Borrower and Guarantor
2021-22	Waimate District Council	Borrower and Guarantor
2022-23	Dunedin City Council	Borrower and Guarantor
2022-23	Environment Southland Regional Council	Borrower and Guarantor

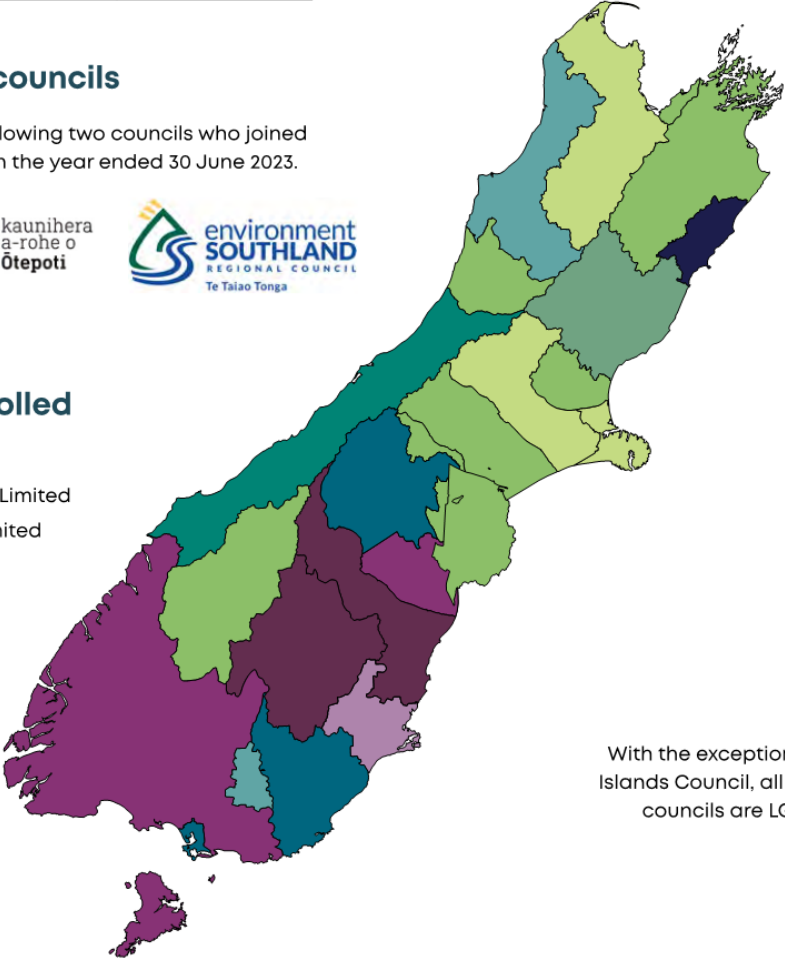
New member councils

LGFA welcomes the following two councils who joined as eligible borrowers in the year ended 30 June 2023.



New member Council-controlled organisations

Dunedin City Treasury Limited
Westland Holdings Limited



With the exception of Chatham Islands Council, all New Zealand councils are LGFA members.

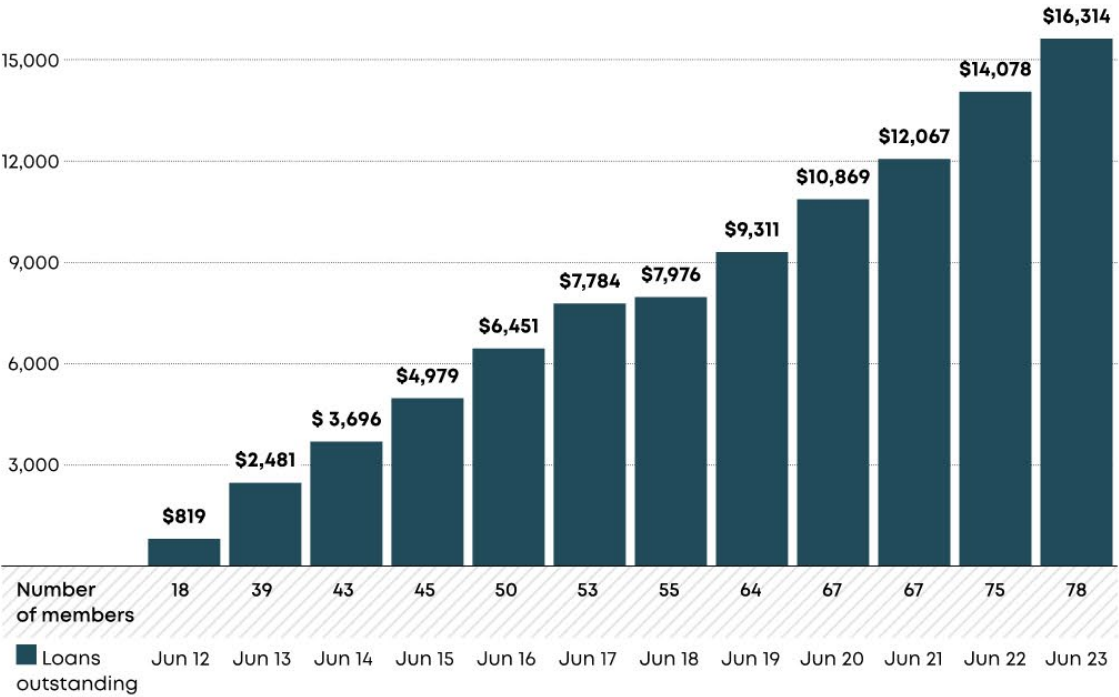
community venue
Queenstown Lakes District Council

85%
loans to councils with
AA-
external rating or better

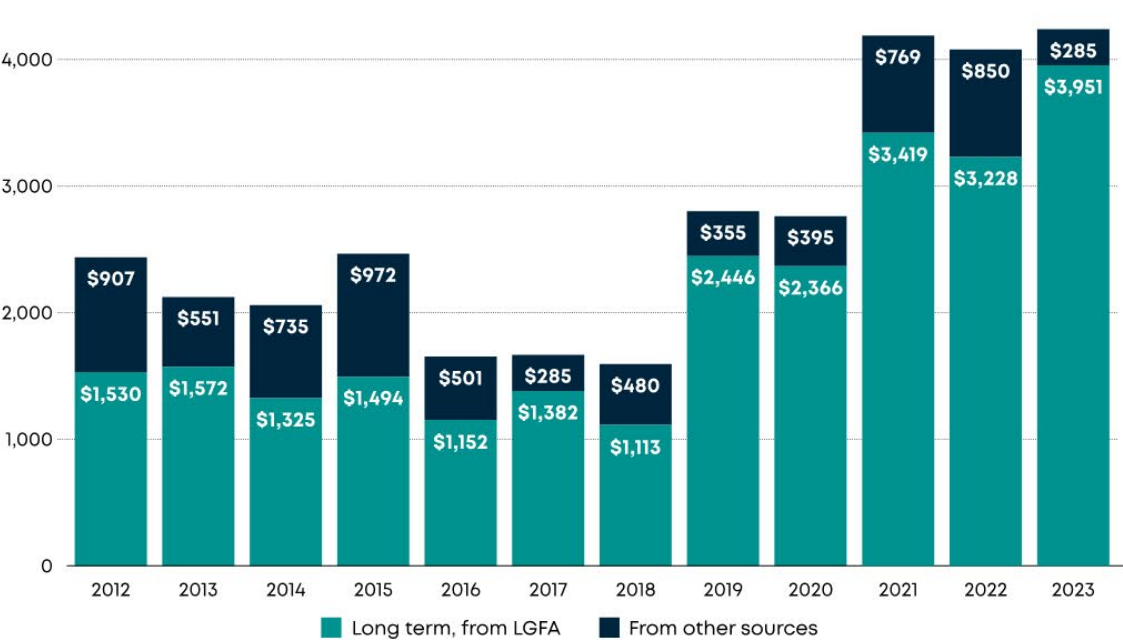
LGFA assign internal credit ratings for all councils, including all councils without external credit ratings.

77 of
New Zealand's
78 councils
are approved
borrowers
as at 30 June 2023

Loans to members outstanding (\$ million, nominal)



Borrowing by members (\$ million, nominal)



Sustainability at LGFA

Te toitūtanga kei te LGFA

LGFA seeks to continuously improve sustainability outcomes within the company as well as assisting the local government sector in achieving their sustainability and climate change objectives.

The Statement of Intent (SOI) requires us to improve sustainability outcomes within LGFA and assist the local government sector in achieving their sustainability and climate change objectives.

This section sets out our management approach for LGFA's environmental, social and governance (ESG) risks and opportunities. LGFA is committed to improving sustainability outcomes within the company, as well as assisting the local government sector achieve their sustainability and climate change objectives within their communities.

This Annual Report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards (core option).

Sustainability Committee

In 2021, LGFA established our Sustainability Committee to assist us to achieve our sustainability objectives. The Committee is chaired by LGFA's Head of Sustainability and comprises three employees and four independent members.

The Committee's purpose is to advise the Chief Executive and Board on sustainability issues within LGFA, across its operating, borrowing and lending activities and includes providing input in our GSS lending programme. GSS loan applications are reviewed by LGFA's Sustainability Committee prior to approval, with approved loans monitored for ongoing compliance.

Independent members of the LGFA Sustainability Committee at 30 June 2023

Alison Howard
Erica Miles
Chris Thurston
David Woods

Our material issues

Material issues are those issues that reflect our significant economic, environmental, and social impacts, or that substantively influence the assessments and decisions of our stakeholders.

LGFA's materiality issues were determined with the assistance of Proxima, an independent sustainability consultancy. LGFA's material issues, unchanged from last year, reflect our increasing focus on sustainability.

Our organisation

- Culture, ethics and governance
- Transparency and disclosure
- Health, safety and wellbeing
- Diversity and inclusion
- Capability and development

Responsible finance

- Deliver efficient and cost-effective funding
- Financial performance
- Industry collaboration and engagement
- Best practice and influence

Our environment

- Green, social and sustainability lending
- Responsible investment
- Sustainable business practices

Climate-related disclosure framework

The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 makes it mandatory for climate reporting entities to produce climate statements according to disclosure standards in the Aotearoa New Zealand Climate Standards issued by the External Reporting Board in December 2022.

LGFA is a designated Climate Reporting Entity as it is a listed issuer of quoted debt securities with a combined face value of quoted debt exceeding \$60 million.

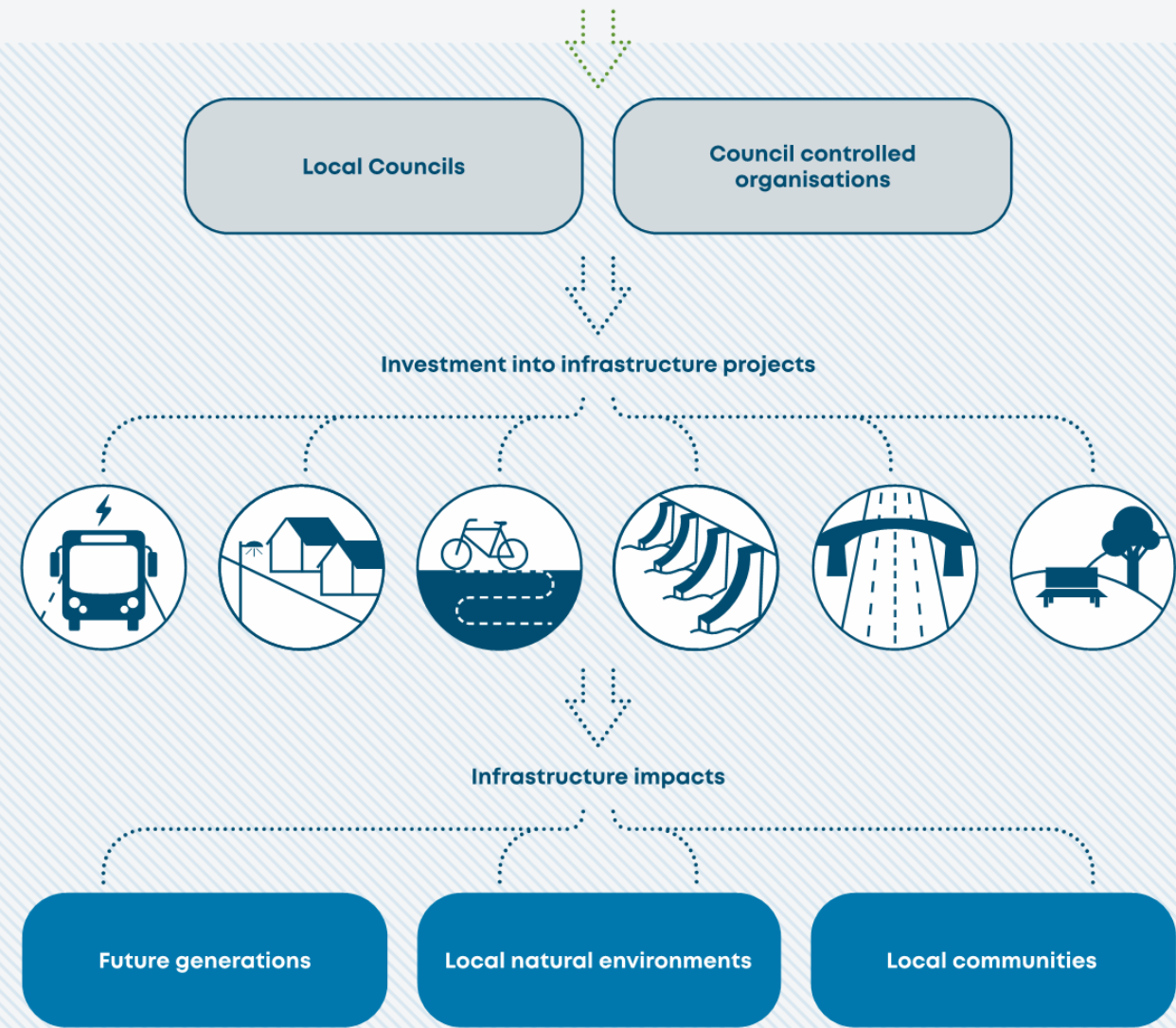
Climate Reporting Entities are required to make annual disclosures covering governance arrangements, risk management, strategies and metrics and targets for mitigating and adapting to climate change impacts.

The mandatory reporting regime takes effect for accounting periods that start on or after the 1 January 2023. This means that LGFA will be required to disclose according to the standard for the accounting period commencing on 1 July 2023, with our first climate statement as part of our 2024 Annual Report.

Our stakeholders



Our impacts



LGFA is the predominant funder of New Zealand's local government and their activities and projects funded through our loans impact across our communities and environment. The impacts from council activities funded via LGFA will be either positive and/or negative and, while we do not specify or control the use of our proceeds from our loans, we are increasingly working with council members and the sector on progressing positive impact projects for the environment and our communities.

Through our sustainable lending products, LGFA continues to work with members to better understand the environmental footprint for each council, as well as identifying where they are undertaking climate reduction initiatives.

Promoting environmental and social stewardship

LGFA recognises the emerging risks for councils from climate change and supports their commitment towards improving sustainable outcomes for local communities. LGFA supports member councils and council-controlled organisations (CCOs) on financing projects to build towards a more sustainable and resilient society. As the primary lender to the local government sector, LGFA finances members' core investment into improving New Zealand's infrastructure and services to residents and visitors. By extension, these members' investments form an important element of LGFA's sustainability context.

Industry collaboration and engagement

One of LGFA's core objectives is to take a proactive role in enhancing the financial strength and depth of local government debt market by working with key central government and local government stakeholders on sector and individual council issues.

Contributing to capital markets development to enhance local government sector debt is a key role for LGFA and we regularly meet with key industry stakeholders, including the Reserve Bank of New Zealand, Department of Internal Affairs, Office of the Auditor General, Taituarā, Infrastructure New Zealand and New Zealand Green Investment Finance. The importance of capital investment in infrastructure has been a focus over the past year, with LGFA actively engaging with councils, CCOs, central Government in relation to the work being progressed on the proposed Affordable Waters Reform Programme.

As at June 2023

Sustainable
Financing Bond

\$1.1 billion

Green, social &
sustainable loans

\$295 million

Climate action
loans

\$521 million

Our Sustainability timeline



LGFA Sustainable Financing Bond Framework

In March 2023, LGFA announced our Sustainable Financing Bond Framework.

The Framework outlines the process by which LGFA will issue and manage sustainable financing bonds that will be notionally allocated to a pool of Sustainable Loans that meet the eligibility criteria set out in the Framework.

Launching the Framework enables LGFA to:

- demonstrate its commitment to support council and CCO borrowers to fund sustainable assets and activities, and incentivise GHG emissions reductions;
- issue bonds that are notionally allocated to the Sustainable Loans on LGFA's balance sheet; and
- advance the market for sustainable finance by providing an innovative opportunity for investors to support council and CCO borrowers to achieve their sustainability aspirations.

The Framework follows the proceeds-based pillars of the general market standards for sustainable finance, namely the International Capital Markets Association's Green Bond Principles (GBP), Social Bond Principles (SBP), and Sustainability Bond Guidelines (SBG). However, LGFA does not claim direct alignment of the Framework with these principles as the pool of Sustainable Loans comprises both GSS Loans and CALs together in the same asset pool.

Sustainable loans are made by LGFA to member councils and CCOs under the Green, Social and Sustainability (GSS) Lending Programme and the Climate Action Loans (CALs) Programme.

The Framework is supported by a Second Party Opinion (SPO) provided by Sustainalytics.

In April 2023, LGFA completed the inaugural issue of \$1.1 billion of Sustainable Financing Bonds maturing 15th May 2030.

Sustainable lending products

Offering members with innovative sustainable lending products aligns to LGFA's commitment to display sector leadership on sustainable lending and incentivising member councils and CCOs to progress sustainability issues. Our sustainable lending products comprise Green, Social and Sustainable lending and Climate Incentive Loans.

Green, social and sustainability lending

A commitment to assist our members to finance projects that promote environmental and social wellbeing in New Zealand.

LGFA acknowledges the importance of financing projects that promote environmental and social wellbeing in New Zealand, and which fund eligible green and/or social projects.

Our green, social and/or sustainability (GSS) lending programme, launched in 2021, provides funding for our members across the following nine green project categories and three social project categories:

Green Project Categories

- Energy Efficiency
- Green Buildings
- Clean Transportation
- Sustainable Water and Wastewater Management
- Renewable Energy
- Pollution Prevention and Control
- Sustainable Management of Living Natural Resources and land use and Use
- Climate Change Adaptation
- Terrestrial and Aquatic Biodiversity Conservation

Social Project Categories

- Affordable Basic Infrastructure-Clean Water, Sewer, Transport
- Access to Essential Services-Education, Healthcare
- Affordable Housing

Under the GSS programme, LGFA lends to councils and CCOs at a discounted margin to incentivise them to undertake projects that help drive forward climate, environmental and social projects across the New Zealand local government sector.

Climate Action Loans

A commitment to incentivise our members to act on climate change and reduce greenhouse gas emissions.

LGFA launched its Climate Action Loans (CALs) lending programme in December 2022. CALs are target-based lending structures designed to incentivise councils and council-controlled organisations (CCOs) to act on climate change and reduce greenhouse gas (GHG) emissions.

A CAL rewards a borrower through a lending margin discount if they have adopted an Emission Reduction Plan setting out specific Emissions Reduction Targets for their operational greenhouse gas emissions at member council or CCO level. CALs are available for all members, including those who may not have eligible projects to access Green, Social and Sustainability (GSS) loans.

LGFA are pleased to welcome Hutt City Council, Whangārei City Council and Christchurch City Council as new lenders under the GSS programme.

Whangārei Civic Centre
Whangārei District Council

Whangārei District's new civic building has been designed to provide a welcoming, inclusive and easily accessible customer experience. The building has also been designed to be sustainable and to strongly reflect Whangārei's cultural identity and heritage. The building will be a central hub for local government-related activities, including:

- democratic processes;
- customer services;
- administrative functions;
- council staff; and
- Northland Transport Alliance staff.

In addition to the sustainable aspect of the building, a solar array system was designed to specifically meet Whangārei District Council's requirements and according to the roof space available for the Civic Centre.

The building also has a number of innovative aspects including a Green wall / Fire Stairs. The fire escape stairs on each side of the building have a 4-storey green wall utilising an endangered species from the Three Kings Islands, with the plants irrigated via rainwater harvesting from the roof.

Cultural connections – The building and surrounding landscape incorporates a very strong cultural narrative, with a Roopu Kaumatua group representing local hapū involved throughout the design process. As well as influencing design themes, this input has led to specific construction features that support tikanga Maori, such as the siting of ablution, cooking and eating spaces throughout the building; as well as the choice of materials used.



Naenae Pool and Fitness Centre
Hutt City Council

The rebuild of the existing Naenae Pool and Fitness Centre with a new swimming pool that will be 65% bigger than the old pool and will be much more energy efficient with up to 53% reduction on energy use. Due to open in July 2024, the Naenae Pool and Fitness Centre will have the following sustainability design features:

- A building that is resilient to the impacts of a changing climate and natural disasters;
- High quality indoor air quality and high standards of acoustic, lighting, visual and thermal comfort;
- EV parks with charging points and secure bicycle stands;
- Ground-water source heat pumps;
- High efficiency heat recovery air-handling units providing dehumidification and air conditioning;
- High efficiency window and glazing suites.

Hutt City Council Chief Executive Jo Miller said "caring for and protecting the environment was one of the six key priorities in the Council's 10-year-plan. A key driver across the Naenae Pool and Fitness Centre planning was sustainability, not just during the life of the project build but also for the future operation of the facility.

Being part of the LGFA GSS funding programme recognises all the work the team has put in to deliver a greener facility with the additional benefit of cost savings across the life of the loan. This is a win-win situation for our ratepayers who get a state-of-the-art pool and fitness centre with savings because of our determination to build greener. We continue to improve the infrastructure across the city which was a main element of feedback on our 10-year-plan while being financial prudent and finding savings where we can – this all supports building a better place to live for Hutt residents."



Ōtautahi Community Housing Trust – Affordable Housing Project Christchurch City Council

The Ōtautahi Community Housing Trust (ŌCHT) is the second largest Community Housing Provider in New Zealand. ŌCHT is a charitable trust offering affordable homes and building sustainable communities across greater Ōtautahi. ŌCHT's objective is to deliver a tenant-centric service and a financially sustainable portfolio. In doing so, it wants to improve and grow community housing in Christchurch. It is a Charitable Trust, so surpluses are reinvested into community housing. ŌCHT was formed in 2016 out of Christchurch

City Council's (CCC's) wish for a financially sustainable model for its social housing portfolio. CCC passed the management of about 2,300 units across to the ŌCHT. Part of ŌCHT's programme is to build at least 400 units to replace those lost due to the Canterbury earthquakes and the GSS Loan provided by LGFA financed the build of these properties. The Ministry of Housing and Urban Development supports the development and ŌCHT is contracted to provide homes for people on the Public Housing Register.

Taituarā LGFA Local Government Excellence Awards

This year we are delighted to announce that Hutt City Council won the 2023 LGFA Supreme Award for its Takai Here Tāngata initiative.

The Takai Here Tāngata initiative led by the Hutt City Council (HCC), Kahungunu Whānau Services, Te Rānanganui o Te Āti Awa, and Urban Plus Limited (UPL) had the goal of putting more people into permanent housing.

Takai Here Tāngata (the binding of people together) signifies how through collaboration and partnership new pathways and practices can be created to enable healthy, thriving, secure, and affordable homes to be built across Lower Hutt.

"HCC is incredibly proud of our partnership and are delighted to see nineteen whānau now living in purpose-built environmentally friendly homes.

The housing of mana whenua and all our people has been identified by the partners as a key priority. Housing has a major impact on people, providing for improved quality of life, stability, and better health outcomes, and ultimately it enables our whānau to have a greater say in determining their own well-being and futures."



Deliver efficient and cost-effective funding

LGFA was established to provide more efficient financing costs and diversified financing sources for New Zealand councils. A core objective is to raise debt on behalf of councils on terms that are more favourable to them than if they raised the debt directly.

By providing our members with access to cost-effective and efficient financing, LGFA supports local government by financing development and investment into New Zealand’s local and regional sectors for a resilient and sustainable society.

A key indicator of satisfaction with service and pricing to members is LGFA’s estimated overall market share for council lending. Since our incorporation

in 2011, LGFA has firmly established itself as the prime lender to the local government sector, with a current estimated market share in excess of 90% of local government debt.

Under the Local Government Act 2002, councils’ are required to manage finances prudently. To assist councils, LGFA works closely with our members to encourage ongoing best practice local government financial management. LGFA’s financial covenants for lenders ensure prudent levels of debt are maintained and our tiered credit margins provide financial incentives for members to seek independent external credit ratings.

Over the last seven years, there has been an improving trend in the underlying credit quality of New Zealand’s council sector. As at June 2023, 34 members had current external credit ratings, with 85% of all LGFA loans being held by AA- rated councils and CCOs or better.

LGFA reports on its cost of borrowing relative to other issuers on a quarterly basis to shareholders and in our annual and half year reports. LGFA surveys members on its performance annually in relation to business delivery and satisfaction with pricing.

Best practice and influence

Delivering operational best practice and efficiency across our issuance programme and lending services is a key objective for LGFA.

Over recent years, LGFA has invested significant resource in developing our risk management framework to reflect financial markets best practice, the objective being to ensure effective management of our risks and compliance with LGFA’s governance and legislative requirements.

Managing treasury risks is a critical component of LGFA’s market operations and in 2021 we engaged external consultants to assist in providing an independent assessment of our treasury policies. The Managing risk section of this report provides more information on our risk management processes.

Over the reporting year, LGFA operations processed over 13,500 transactions with total gross cash flows in excess of \$34 billion without error. Where possible, LGFA employ straight-through processing to minimise operational risk across our treasury operations.

Improving our information technology control environment to mitigate emerging risks from cyber threats was another key focus over the past year, with independent consultants engaged to review our cyber control environment for compliance against best practice cyber risk controls.

Responsible investment

Our Responsible Investment Policy commits to investing responsibly by incorporating environmental, social and governance (ESG) factors into its investment analysis and decision-making processes relating to the management of the liquid assets portfolio.

Sustainable business practices

LGFA is committed to reviewing internal processes to reduce our carbon emissions. In 2021, LGFA directors committed to reducing our carbon emissions over time, with our target of cutting per employee emissions by 30% by 2030, compared with a 2018/19 base year.

Total carbon emission intensity for year ended June 2023

Total carbon emissions	Emissions (tC)2e		Variance (change %)	
	FY 23	FY 22	To FY 22	To Base year
Verified				
Scope 1	0.00	0.00	--	--
Scope 2	3.04	2.48	+23%	+24%
Scope 3	50.52	39.75	+27%	-63%
Total	53.56	42.23	+27%	-61%

In aggregate, our scope 1 and 2 emissions are minimal, with scope 3 air travel, at 90% of total, representing the significant majority of our 2022/23 emissions. The increase in our travel-related emissions over 2021/22 followed the full lifting of Covid travel restrictions which facilitated the first opportunity since Covid to visit key offshore investors. While a certain level of air travel is essential for our business, we have achieved a substantial reduction over our base year. We constantly review options to reduce air travel where practical, including the recent introduction of one virtual Board meeting, increased use of hybrid meetings (in-person and virtual attendance) as well as offering a virtual option for members attending our annual Shareholder and Borrowers’ day.

The scope of the emissions disclosure includes all activities within the operational boundaries of LGFA including its offices in Wellington and Auckland. LGFA has measured the emissions resulting from its operational activities, purchased energy, and selected impacts from its value chain activities, including business travel, freight, and waste sent to landfill. It is noted that there are a range of activities that have previously been shown to be de minimis and these are excluded from the scope of the inventory. GHG quantification is subject to inherent uncertainty because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases.

Toitū net carbonzero certification

As part of our carbon reduction process, LGFA has maintained a Toitū net carbonzero certification since 2021. The Toitū certification recognises the processes LGFA has put in place to measure our greenhouse gas (GHG) emissions, as well as management plans to reduce our company’s emissions. Where LGFA are unable to eliminate emissions, these are offset through the purchase of high-impact carbon credits from a Gold Standard-certified international project.



Kauri 2000

Kauri 2000 was established in 1999 as a project to celebrate the start of the new millennium by planting 2000 kauri on the Coromandel Peninsula. To date the Trust has planted over 55,500 trees and continues to plant kauri throughout the Coromandel. LGFA donates to Kauri 2000 on an annual basis to assist the Trust with their planting programme. In 2023, LGFA donated \$4,000.



Governance and culture

Te whakaruruhau me te ahurea

The Board is responsible for the strategic direction and control of LGFA's activities and is committed to ensuring LGFA demonstrates ongoing commitment to strong and sound corporate governance.

LGFA governance policies and documents

Audit and Risk Committee Charter
Board Charter
Code of Ethics
Constitution
Diversity Policy
Foundation Policies
Internal Audit Charter

Remuneration Policy
Responsible Investment Policy
Risk Management Policy
Shareholders Agreement
Sustainability Policy
Treasury Policy

NZX Corporate Governance Best Practice Code

LGFA is a listed issuer on the NZX Debt Market and complies with the eight core principles underpinning the NZX Corporate Governance Best Practice Code (1 April 2023).

LGFA considers that its governance practices have not materially differed from the NZX Code for the year ended 30 June 2023. Areas where LGFA has implemented alternative measures to the Code are as follows:

An issuer should establish a nomination committee to recommend director appointments to the board.

An issuer should have a remuneration committee which operates under a written charter.

The process for the nomination and remuneration of directors is documented in the Constitution of New Zealand Local Government Funding Agency Limited and outlined on page 54.

Our purpose

Benefiting local communities through delivering efficient financing for local government.

Our values Ō mātau uara



We act with integrity E pono ana mātau

We are honest, transparent and are committed to doing what is best for our customers and our company



We are customer focused E arotahi ana mātau ki te kiritaki

Our customers are our council borrowers, investors, and all other organisations that we deal with. We listen to them and act in their best interests to deliver results that make a positive difference



We strive for excellence E whakapau kaha mātau kia hiranga te mahi

We strive to excel by delivering financial products and services that are highly valued at least cost while seeking continuous improvement in everything we do.



We are innovative He auaha mātau

To meet our ever-changing customer requirements, we will encourage innovation and provide a diverse range of financial products and services.



We provide leadership He kaiārahi mātau

We are here for our stakeholders in being strategically minded, providing resilience and executing our strategy. We embrace a high-performance culture and can be relied upon to deliver results.

Culture, ethics and governance

The Board is committed to ensuring LGFA demonstrates ongoing commitment to strong and sound corporate governance, and that the conduct of both directors and staff at all times meets the high standards required to reflect the company’s values and to protect its reputation.

LGFA’s required standards for conduct are defined in our Code of Ethics and is reflected throughout the following key governance documents: The Constitution; Shareholders’ Agreement; Board Charter; Audit and Risk Committee Charter; Internal Audit Charter; and the Diversity Policy.

Code of Ethics

LGFA has adopted a formal Code of Ethics, incorporating its Conflicts of Interest and Code of Conduct policies, which sets out the standards and values that directors and employees are expected to follow.

Impartiality and transparency in governance and administration are essential to maintaining the integrity of LGFA. Accordingly, our Conflicts of Interest Policy provides guidance to directors and employees in relation to actual and potential conflicts of interest, including specific guidance on managing potential conflicts that may arise for non-independent directors. Directors and employees are expected to avoid all actions, relationships and other circumstances that may impact on their ability to exercise their professional duties.

Our Code of Conduct Policy requires employees and directors to maintain high standards of integrity and conduct by clearly setting out standards for

expected behaviour. In addition, the policy sets out our commitment to employees to act in a fair and reasonable manner, while providing a fair and safe working environment.

Protected Disclosures and Whistle Blowing

Our Protected Disclosures and Whistle Blowing Policy outlines procedure, support and protection to persons who disclose information which they reasonably believe to be about serious wrongdoing in or by LGFA.

Financial Products Trading Policy

Our Financial Products Trading Policy, which applies to directors, employees and contractors, details the policy and rules for dealing in listed debt securities issued by LGFA and any other LGFA-quoted financial products.

Transparency and disclosure

Transparency and disclosure are essential for shareholder, rating agencies and investor confidence and codified through:

- Shareholders’ agreement
- NZX listing rules
- Financial accounting standards
- Regulatory compliance

LGFA is committed to ensuring the highest standards are maintained in financial reporting and disclosure of all relevant information. Transparency in how we operate is core to achieving our shareholders’ objectives as well as for our wider stakeholders including investors, banks and other financial intermediaries and the credit rating agencies. As such, transparency in how we operate is reflected in operating requirements outlined in our foundation documents, including the Constitution, Shareholders’ Agreement and Board Charter, as well as Company policies on Continuous Disclosure, Financial Products Trading, and Protected Disclosures and Whistle Blowing.

LGFA demonstrates transparency through its annual Statement of Intent (SOI) and quarterly reporting to shareholders on its performance against the objectives set out in the SOI.

The Audit and Risk Committee has responsibility to provide assurance to the Board that due process has been followed in the preparation and audit of the financial statements and to ensure there are appropriate processes and activities to ensure compliance with relevant regulatory and statutory requirements.

LGFA has adopted a formal Continuous Disclosure Policy, the requirements of which ensure that we meet the continuous disclosure requirements of the NZX Listing Rules, including the disclosure for material environmental, social and governance (ESG) factors.

The GRI sustainability reporting standards are the most widely adopted global standards for sustainability reporting and this year’s annual report has been prepared to meet the requirements of the Global Reporting Initiative (GRI) Standards (core option).

Audit and Risk Committee

The Audit and Risk Committee is a committee of the Board.

The Audit and Risk Committee is governed by its own Charter which states that the purpose of the Committee is to provide advice, assurance and observations to the Board relating to the effectiveness and adequacy of internal control and risk management systems, processes and activities across LGFA. The Committee assists the Board to fulfil its duties by considering, reviewing and monitoring:

- Risk management framework and processes;
- Internal control environment and mechanisms;
- Operations and effectiveness of the internal audit function;
- Preparation and audit of financial statements;
- Integrity of performance information, including financial reporting;
- Governance framework and process;
- Policies, processes and activities to ensure compliance with legislation, policies and procedures; and
- Statutory/regulatory disclosure and reporting and performance against Statement of Intent targets.

Audit and Risk Committee members are appointed by the Board. Membership comprises at least three directors, the majority of whom must be independent.

Internal audit

LGFA has an internal audit function to provide assurance that its risk management, governance and internal controls are operating effectively.

The Audit and Risk Committee has responsibility for oversight of the internal audit function, including:

- Reviewing the Internal Audit Charter, the operations of the internal audit and organisational structure of the internal audit function;
- Approving the annual audit plan;
- Reviewing the effectiveness of the internal audit function; and
- Meeting separately with the internal auditor to discuss any matters that the Audit and Risk Committee or Internal Audit considers should be discussed privately.

External audit

The external audit of LGFA is conducted in accordance with Section 14 of the Public Audit Act 2001, including the appointment of the external auditors of LGFA by the Auditor-General.

The Audit and Risk Committee has responsibility for all processes relating to the audit of financial statements, including the setting of audit fees and ensuring the independence and objectivity of the auditors.

The external audit of LGFA is conducted in accordance with a formal external audit plan which is reviewed and approved by the Audit and Risk Committee on an annual basis. The external auditor attends LGFA’s Annual General Meeting.

Our team

Health, safety and wellbeing

LGFA is committed to providing a safe and healthy working environment for all employees and a flexible workplace environment that promotes increasing employee engagement, productivity and enhancing recruitment and retention.

LGFA maintains policies on health and safety, flexible working, diversity and employment which outlines the company's commitment to health, safety and wellbeing.

Our Health and Safety Policy sets out the duty of directors and staff under the Health and Safety at Work Act 2015. A staff health and safety committee has been established with responsibility to continuously review health and safety issues and ongoing compliance with the Act, with reporting on health and safety issues at each Board meeting.

LGFA provides staff with access to professional support for general counselling services, individual case management and on-going monitoring of an employee's progress to ensure the assistance and treatment in meeting their needs.

Capability and development

LGFA is committed to ongoing education and professional development for staff and directors by funding professional development courses, membership of professional bodies and attendances at industry conferences.

The Future Director programme, launched in 2021 by the Board and Shareholder Council, aims to give talented people within the Local Government sector with an interest in corporate governance the opportunity to observe and participate in Boardroom discussions for an 18-month period. The Future Director actively participates at Board meetings, but they have no voting rights. Anita Furniss commenced on 1 July 2022 as the inaugural Future Director.

Diversity and inclusion

LGFA is committed to promoting a culture that supports both workplace diversity and inclusion within the organisation.

Diversity at LGFA involves recognising and valuing the contribution that people can make because of their skills, experience, background and differing perspectives. LGFA values employees by encouraging participation and providing opportunities for its people to succeed.

LGFA has formally adopted a Diversity Policy which applies to both LGFA employees and directors. Diversity and inclusiveness at LGFA involves recognising the value of individual differences and managing them in the workplace. Diversity in this context covers gender, age, ethnicity, cultural background, sexual orientation, religious belief, disability, education and family responsibilities.

Each year, we complete a diversity review which is reported through to the Board and, when undertaking recruitment, selection panels for interview are split by gender.

Appointments to the Board are made in accordance with our Constitution and the Shareholders Agreement.

	2023		
	Female		Male
Board	2		3
Staff	3		7

	2023		
	Under 30 years	30-50 years	Over 50 years
Board	-	-	100%
Staff	12%	22%	60%

	2022		
	Female		Male
Board	1		4
Staff	3		7

	2022		
	Under 30 years	30-50 years	Over 50 years
Board	-	-	100%
Staff	12%	22%	60%



From left: Anthony Quirk, Alan Adcock, Linda Robertson, Craig Stobo, Helen Robinson, Philip Cory-Wright. Absent Anita Furniss (Future Director).



From left: Koshick Ranchhod, Mark Butcher, Ariadne Clarke, Neil Bain, Jane Phelan, Sumitha Kaluarachi, Andrew Michl, Nick Howell. Absent: Maya Ranzinger

Our Board

The LGFA Board Charter sets out the roles and responsibilities of the Board. The Charter states that role of the Board is to ensure that LGFA achieves its goals. Having regard to its role, the Board will direct, and supervise the management of the business and affairs of LGFA, including:

- ensuring that LGFA's goals are clearly established, and that strategies are in place for achieving them;
- establishing policies for strengthening LGFA's performance;
- ensuring strategies are in place for meeting expectations set out in the current Statement of Intent and monitoring performance against those expectations, in particular LGFA's primary objective to optimise the debt funding terms and conditions for participating borrowers;
- monitoring the performance of management;
- appointing the CEO, setting the terms of the CEO's employment contract and, where necessary, terminating the CEO's employment;
- deciding on whatever steps are necessary to protect LGFA's financial position and the ability to meet its debts and other obligations when they fall due, and ensuring that such steps are taken;
- ensuring that LGFA's financial statements are true and fair and otherwise conform with law;
- ensuring that LGFA adheres to high standards of ethics and corporate behaviour; and
- ensuring that LGFA has appropriate risk management/regulatory compliance policies in place. In the normal course of events, day-to-day management of LGFA will be in the hands of management. The Board will satisfy itself that LGFA is achieving its goals, and engaging and communicating with Shareholders Council; and
- engaging and communicating with shareholders.

Board composition

The Board comprises five independent directors and one non-independent director. An independent director is a director who, within five years prior to appointment, was not an employee of any shareholder, employee of a council-controlled organisation owned by a shareholder, or a councillor of any local authority which is a shareholder.

The directors of LGFA as at 30 June 2023



Craig Stobo
Independent Chair
BA (Hons) Economics First Class, Otago; C.F.Inst.D
Associate Member CFA Society New Zealand

Craig has worked as a diplomat, economist, investment banker and Chief Executive Officer of BT Funds Management (NZ) Limited. He has completed the Advanced Management Programme at Wharton Business School in Philadelphia, authored reports to the New Zealand Government on the Taxation of Investment Income (which led to the PIE regime), and the creation of New Zealand as a funds domicile. He currently chairs the listed companies Precinct Properties New Zealand Limited and NZ Windfarms. He has directorship and private equity interests in financial services and other businesses.

Director
Precinct Properties New Zealand
NZ Windfarms
Appello Services
Director/Shareholder
Biomarine Group
Elevation Capital Management
Legend Terrace
Saturn Portfolio Management
SouthWest Trustees
Managing Director/Shareholder
Stobo Group



Alan Adcock
Non-Independent Director
Member Audit and Risk Committee
B.Com, MBA (with Distinction)

Alan has over 35 years' experience in the financial services and local government sectors at executive level, with over twenty years in banking, insurance and funds management followed by his current role as General Manager Corporate / CFO at Whangārei District Council.
His involvement with LGFA began in its initial planning stage, as a representative of the 'tight nine' councils that worked together to turn the concept into reality in 2011. He was an inaugural member of the Shareholders' Council, which he chaired from 2014 before joining the Board in 2021.

Chief Financial Officer
Whangārei District Council
Director
Whangārei Waste Limited



Philip Cory-Wright
Independent Director
Member Audit and Risk Committee
LLB (Hons), BCA Business Management, INFENZ (Cert), C.F.Inst.D

Philip is a solicitor of the High Court of New Zealand and Victoria. He has worked as a corporate finance adviser in New Zealand to the corporate sector on debt and equity matters for more than 30 years. He is currently a director of NZ Windfarms, Powerco, Matariki Forests, South Port New Zealand and Papa Rererangi I Puketapu (New Plymouth Airport). Philip is also a strategic adviser to clients in the energy and infrastructure sectors. He was a member of the Local Government Infrastructure Expert Advisory Group tasked with advising the Minister of Local Government on improvements in local government infrastructure efficiency.

Director
Matariki Forest Group
Papa Rererangi i Puketapu (New Plymouth Airport) (Chair)
NZ Wind Farms
Para Bidco
Powerco
South Port New Zealand



Anthony Quirk
Independent Director
Member Audit and Risk Committee
BCA Hons (First Class), INFINZ (Fellow), M.Inst.D

Anthony is an experienced financial services sector professional with extensive executive experience in the sector. He has a varied portfolio of governance interests with an emphasis on areas that improve or contribute to communities. He is a Fellow of the Institute of Finance Professionals New Zealand (INFINZ) and is a former Chairman of that organisation. He was previously Chair of the Asset Management Advisory Board of the New Zealand Exchange, Deputy Chair and Board member of the New Zealand Society of Investment Analysts and a previous member of the Financial Reporting Standards Board of the New Zealand Society of Accountants.

Chair
Milford Asset Management Limited
(and some associated subsidiaries)
Humanitix, New Zealand

Trustee
Milford Foundation



Linda Robertson
Independent Director
Chair Audit and Risk Committee
B.Com, Dip Bank, INFINZ (Distinguished Fellow),
C.F.Inst.D, GAICD, FGNZ

Linda is professional company director with over 20 years governance experience, combined with 30 years senior financial management experience having worked in both the banking and energy sectors in New Zealand.

Linda holds a Bachelor of Commerce Degree and a Diploma in Banking. Linda is a Distinguished Fellow of the Institute of Finance Professionals New Zealand (INFINZ), a Graduate Member of the Australian Institute of Company Directors, a Certified Fellow of the Institute of Directors in New Zealand and a Fellow of Governance NZ.

Linda is currently chair of Crown Irrigation Investments, Central Lakes Trust and Central Otago District Council's Audit and Risk Committee. She is a director of Horizon Energy, Invercargill City Holdings, Kordia, SBS Bank and Alpine Energy. Linda is also a member of the Capital Markets Advisory Committee and the Risk and Audit Committee of The Treasury; and the Audit and Risk Committee of the Office of the Auditor General.

Chair
Central Lakes Trust and associated subsidiary
Central Otago District Council, Audit & Risk Committee
Crown Irrigation Investments Limited

Director
Alpine Energy Limited and associated subsidiary
Kordia Group Limited
Invercargill City Holdings Limited and associated subsidiary
Horizon Energy Distribution Limited and associated subsidiaries
Southland Building Society (SBS Bank) and associated subsidiary

Member
Office of the Auditor-General and Audit New Zealand,
Audit and Risk Committee
The Treasury, Capital Markets Advisory Committee
The Treasury, Risk and Audit Committee



Helen Robinson
Independent Director
Member Audit and Risk Committee
ONZM

Helen is an experienced business leader locally and internationally mostly in the technology and sustainability sectors. Helen was Managing Director of Microsoft New Zealand, VP of Pivotal Corporation Asia Pacific and Managing Director, Markit Group (now S&P Global). Helen founded and was CEO for Organic Initiative Ltd (Oi).

Helen has decades of governance experience acting as Director or Chair for numerous public, private and public sector organisations.

She is a member of Global Women, a Chartered Member of the NZ Institute of Directors, and holds an international honorary membership to Beta Gamma Sigma. Helen was awarded the NZ Women of Influence Supreme Award 2016, the Most Inspiring Individual at NZ Innovation Awards 2017, Next Magazine's Woman of the Year in Business & Innovation, and Most Inspiring Women Leader at the NZ International Business Awards in 2019.

Director and Shareholder
Organic Initiative Limited
Penguin Consulting Limited

Chair
Kara Technologies Limited
Astrix Astronautics Limited

Directors did not hold any interests in debt securities (including listed bonds) in the company as at 30 June 2023.



The Bandsmen's Memorial Rotunda is a well-known landmark in the Christchurch Botanic Garden
Christchurch City Council

Staff

Mark Butcher
Chair
Waikato-Tainui Group Investment Committee

Member
New Zealand Superannuation Fund,
Nominating Committee
NZ Financial Markets Association Board

Neil Bain
Chair
Central Hawkes Bay District Council,
Audit & Risk Committee

Director tenure and meetings of the Board

John Avery, Independent Director, retired from the Board on 23 November 2022. John was appointed to the Board on 1 December 2011 and served as a Director for 11 years.

There were seven Board meetings and five Audit and Risk Committee meetings over the year.

Director	Date commenced in office	Board meetings held/attended	Audit and Risk Committee held/attended
Craig Stobo (Chair)	1 December 2011	7/7	-
Alan Adcock	23 November 2021	7/7	5/5
John Avery	1 December 2011	3/3	-
Philip Cory-Wright	1 December 2011	6/7	5/5
Anthony Quirk	21 November 2017	7/7	5/5
Linda Robertson	24 November 2015	7/7	5/5
Helen Robinson	23 November 2022	4/4	2/3

Board performance review

The Board has an annual formal self-assessment to assess director, Board and committee performance. In addition, Board performance is reviewed by external consultants on a periodic basis.

Nomination of Directors

Director nominations can only be made by a shareholder by written notice to LGFA and the Shareholders' Council, no more than three months, nor less than two months, before a meeting of shareholders. All valid nominations are required to be sent by LGFA to all persons entitled to attend the meeting.

Retirement and re-election of Directors

Directors are appointed to the Board by an Ordinary Resolution of shareholders. A Director must not hold office (without re-election) past the third annual meeting of the Company following the Director's appointment or three years, whichever is longer. A retiring Director shall be eligible for re-election.

Indemnities and insurance

Under LGFA's constitution, LGFA indemnifies directors for potential liabilities and costs they may incur for acts of omission in their capacity as directors. LGFA has arranged directors' and officers' liability insurance covering directors and management acting on behalf of the company. Cover is for damages, judgements, fines, penalties, legal costs awarded and defence costs arising from wrongful acts committed while acting for LGFA. The types of acts that are not covered are dishonest, fraudulent, malicious acts, or omissions, wilful breach of statute or regulation, or duty to LGFA, improper use of information to the detriment of LGFA, or breach of professional duty.

Remuneration

The remuneration of the Board reflects LGFA's size and complexity and the responsibilities, skills, performance and experience of the directors. A specialist independent adviser is used periodically to ensure the remuneration is appropriate.

Board remuneration is determined by an Ordinary Resolution of shareholders. The current board remuneration was approved by shareholder resolution at the Annual General Meeting on 23 November 2021.

Director annual fee breakdown

Position. Fees per annum	2023	2022
Board Chair	\$108,000	\$108,000
Audit and Risk Committee Chair	\$67,000	\$67,000
Director / ARC Member	\$63,000	\$63,000
Director	\$60,000	\$60,000

Director	2023
Craig Stobo (Chair)	\$108,000
Alan Adcock	\$63,000
John Avery ¹	\$25,000
Philip Cory-Wright	\$63,000
Anthony Quirk	\$63,000
Linda Robertson	\$67,000
Helen Robinson ²	\$36,750

- 1. John Avery retired as director on 23 November 2022.
- 2. Helen Robinson was appointed as director on 23 November 2022.

The remuneration of the CEO is determined by the Board and is reviewed annually taking into consideration the scope and complexity of the position with reference to the remuneration of CEOs of similar organisations. A specialist independent adviser is used periodically

to ensure the remuneration is appropriate. The CEO remuneration package comprises a fixed cash component of \$754,000 per annum as at 30 June 2023 (\$572,900, 2022) and an at-risk short-term incentive of the fixed cash component. The short-term incentive payment is made annually at the Board's discretion subject to the CEO and LGFA meeting a range of specific performance objectives for the respective financial year.

Chief Executive remuneration

Per annum	2023	2022
Salary	\$754,000	\$572,900
Taxable benefits	-	-
Subtotal	\$754,000	\$572,400
Pay for Performance STI	\$113,100	\$85,935
Kiwisaver Employer Contribution	\$34,684	\$26,245
Total remuneration	\$901,784	\$685,080

Staff remuneration

The following table shows the number of staff who received more than \$100,000 in total remuneration, in \$10,000 bands.

Total remuneration	2023
\$160,000 to \$169,999	1
\$180,000 to \$189,999	1
\$210,000 to \$219,999	1
\$270,000 to \$279,999	1
\$350,000 to \$359,999	1
\$360,000 to \$369,999	1
\$900,000 to \$909,999	1

LGFA Future Director

In 2022, LGFA appointed Anita Furniss as its inaugural Future Director under the LGFA Future Directors programme, effective 1 July 2022 for a period of 18 months.

The purpose of the Future Director programme is to give talented people working in the Local Government sector the opportunity to observe and participate in Board room discussions over an 18-month period. During this time, the Future Director actively participates in all Board meetings, although they do not possess voting rights and are not involved in decision-making.



Anita Furniss
LGFA Future Director

Anita has a legal background and during her 16 years of legal practice experience she worked in a litigation team in private practice, and in local government in both London and New Zealand on a broad range of legal issues.

Anita started her local government career at Franklin District Council in 2007 and following her time at the London Borough of Camden and London Borough of Hackney, returned to New Zealand and to the Auckland Council.

In her time at Auckland Council, Anita has provided legal and strategic advice on a wide range of issues for executive and governance level decisions in a range of roles. She began in the Public Law team, was the Executive Officer to the Finance Division, Executive Officer to the Deputy Chief Executive, Acting General Manager People & Culture, Implementation Lead for Strategic Programme; and is currently Executive Officer for the Group Services Division.

Anita reflects on her experience as LGFA's inaugural Future Director:

The LGFA Future Director role has been an extraordinary opportunity to expand my governance experience by seeing and being part of a professional, high performing and innovative Board of Directors in action.

I went into the role with an interest in how robust governance decision making grapples with complex challenges, and it has been inspiring to see the Board's purpose led approach. There is no doubt that the wider local government sector, future generations, and local communities throughout New Zealand benefit from the efficient financing that LGFA provides.

The LGFA participating in the Future Director programme is an example of the leadership it provides the local government sector. As one of many local government employees throughout New Zealand, and the inaugural Future Director, I am proud to have played a small part in the LGFA journey and in its achievements.

Shareholders

Foundation documents

The Constitution and the Shareholders Agreement are foundation documents.

The Constitution defines the rights and the exercise of powers of shareholders, the acquisition and redemption of company shares, proceedings of shareholder meetings, voting at meetings and the right to demand polls, shareholder proposals and review of management.

The Shareholders Agreement is an agreement between LGFA and its shareholders which clearly defines LGFA's business, its objectives, the role of the Board, the establishment of the Shareholders Council and the approval rights of the shareholders.

Shareholders Council

The Shareholders Council comprises five to ten appointees from the Council Shareholders and the New Zealand Government. The role of the Shareholders Council comprises the following:

- Review and report performance of LGFA and the Board;
- Recommendations to shareholders as to the appointment, removal, replacement and remuneration of directors;
- Recommendations to shareholders as to any changes to policies, or the Statement of Intent (SOI), requiring their approval;
- Update shareholders on LGFA matters and to coordinate shareholders on governance decisions.

Members of the Shareholders Council
as at 30 June 2023

- Kumaren Perumal (Chair)
Bay of Plenty Regional Council
- Mike Drummond (Deputy Chair)
Tasman District Council
- John Bishop / Andrew John
Auckland Council
- Steve Ballard
Christchurch City Council
- David Bryant
Hamilton City Council
- Joy Buckingham
New Plymouth District Council
- Kathryn Sharplin
Tauranga City Council
- Sarah Houston-Eastergaard
Wellington City Council
- Adele Henderson
Western Bay of Plenty District Council
- Nyika Gwanoya / Phoebe Slee
The Treasury
- James Stratford
Department of Internal Affairs



Front Entrance at Wai o Rua – Stratford Aquatic Centre which opened in October 2022
Stratford District Council

Managing risk

Ko te whakahaere tūraru

An effective risk management framework is a critical component of LGFA's business structure for managing the company's exposure to business and treasury risks arising from its business operations of raising and on-lending funds to approved members.

LGFA risk register

The LGFA risk register is a key component of the company's risk management framework. The key objective of the risk register is to ensure that the company assesses the inherent risks faced by the business on an ongoing basis.

The risk register:

- Identifies the inherent risks that LGFA is exposed to when conducting its core business activities;
- Assesses the likelihood and potential impact of the inherent risks on the business;
- Describes the internal control framework and management processes for managing and mitigating the identified inherent risks;
- Provides commentary on internal audit coverage of the identified inherent risks; and
- Provides an overall inherent and residual risk assessment and compares these to approved risk appetite settings and risk tolerance ranges

The risk register is reviewed quarterly by management and the Audit and Risk Committee.

The objective of LGFA's risk management function is to ensure that effective controls and frameworks are implemented to manage risks effectively and in compliance with LGFA's governance and legislative requirements. The risk management function ensures that LGFA can achieve its objectives, as set out in the Statement of Intent, within the risk appetite of the company's shareholders and Board.

The objective of LGFA's risk management framework is to ensure that the organisation operates within shareholder and Board-approved risk limits. LGFA's approach to risk management is based on the following core elements:

- The Board oversees the risk appetite of the organisation and ensures that it is consistent with the Constitution and Shareholders Agreement.
- The risk appetite is reflected in policies approved by the Board and Audit and Risk Committee.
- LGFA management implements policies and controls to ensure that all relevant risks are identified, monitored, measured and managed effectively.
- The Internal Audit and risk and compliance functions provide assurance to both the Board and the Audit and Risk Committee on the performance of internal controls and risk management systems.

LGFA adopts the three lines of defence model to ensure that essential risk management functions adopt a systematic approach that reflects industry best practice:

- The first line of defence establishes risk ownership within the company and is represented by its operational risk and control processes. LGFA managers are responsible for identifying controls, maintaining effective controls and mitigating risks.
- The second line of defence ensures that the operational risk and control processes are actively and appropriately managed by processes such as the regular review of risk reports and compliance monitoring against the risk management framework.
- The third line of defence is the independent assurance provided by both the internal and external audit functions which review and highlight control weaknesses and inefficiencies to management and the Board.

Treasury risk management

LGFA finances itself through domestic and international wholesale and retail debt capital markets, with the funds raised on-lent to members. LGFA activities are governed by the Local Government Borrowing Act 2011, the Local Government Act 2002, and the Companies Act 1993. In addition, the company is required to comply with Foundation Policies outlined in the Shareholders Agreement. Any change to the Foundation Policies require shareholders consent.

LGFA's risk management uses an approved risk identification and assessment framework to actively monitor and manage all treasury and financial risks by applying best practice risk management principles, processes and practices.

LGFA has treasury exposures arising from its normal business activities that principally relate to the raising and on-lending of funds. LGFA manages treasury exposures under a Board-approved Treasury Policy, the objectives for which are to:

- Effectively manage treasury risks, within approved compliance limits, to protect LGFA's capital position and net interest margin over time.
- Fund members in the most cost effective manner and in accordance with LGFA's operating principles, values and objectives.
- Protect LGFA's assets and prevent unauthorised transactions.
- Promote professional expertise of financial and management control to all external parties.

- Minimise operational risk by maintaining adequate internal controls, systems and staffing competencies.
- Provide timely reporting to the Board with meaningful and accurate reporting of interest rate exposures, liquidity, asset and liability maturity, funding, counterparty credit, performance and policy compliance.

Specific treasury exposures relate to liquidity, interest rate/market risk, foreign exchange, counterparty credit, operational and lending risks.



Liquidity risk

Liquidity risk is the potential inability to meet financial obligations when they become due, under normal or abnormal/ stressed operating conditions.

Liquidity risk is managed using a forecast cashflow approach measured over a 90-day period. LGFA is required to maintain sufficient liquidity (comprising a government standby facility, and holdings of cash and liquid investments) to support six months of funding commitments.

Interest rate risk / market risk

Interest rate risk is the risk that financial assets may re-price/ mature at a different time and/ or by a different amount than financial liabilities.

Interest rate / market risk is managed using Value at Risk (VaR) and Partial Differential Hedge (PDH) limits to mitigate the potential change in value of the balance sheet due to changes in interest rates.

- Value at Risk calculates the potential amount a portfolio could be expected to lose, 5% of the time, over a given time period. It is calculated using historical changes in underlying risk variables and applying those changes to the current portfolio.

VaR is measured over a daily time horizon with a 95% confidence interval. A daily 95% VaR exposure of \$1 million means that there is a 5% chance that the portfolio could potentially lose more than \$1 million over the next business day.

- Partial Differential Hedge measures the sensitivity of a portfolio to a one basis point change in underlying interest rates. For example, a PDH of NZD\$100,000 means that the portfolio value will increase by NZD\$100,000 for a one basis point fall in interest rates.

In addition, LGFA also undertakes scenario analysis to model the potential effect of changing market environments on the balance sheet.

Counterparty credit risk

Counterparty credit risk is the risk of financial loss arising from a counterparty defaulting on an investment, security and/or financial instrument where LGFA is a holder or party.

Counterparty credit risk is managed through counterparty limits for investments. These limits are determined as a function of the term of investment, liquidity and credit quality of the counterparty (as measured by a recognised credit rating).

All derivative contracts are subject to formal collateral arrangements to mitigate counterparty risk. Investment is restricted to approved financial instruments listed in the Treasury Policy.

Foreign currency risk

Foreign currency risk is the risk of an adverse change in the fair value of a financial instrument due to a change in foreign exchange rates.

Foreign currency risk could exist if LGFA accesses foreign capital markets for funding purposes. To date, all funding has been sourced through the New Zealand domestic currency.

Foreign exchange risk would be managed through a requirement to fully hedge back to floating rate New Zealand dollar the full amount and term of all foreign currency funding and cash flows.

Operational risk

Operational risk, with respect to treasury management, is the risk of financial and/or reputation loss arising from human error, fraud, negligent behaviour, system failures and inadequate procedures and controls.

Operational risk is managed using internal controls and procedures across operational functions. Segregation of duties between staff members who have the authority to enter transactions with external counterparties and the staff who control, check and confirm such transactions is a cornerstone internal control principle.

Financial instruments are not entered into if the systems, operations and internal controls do not satisfactorily support the measurement, management and reporting of the risks associated with the instrument.

Tākina Wellington Convention and Exhibition Centre.

Lending risk

Lending risk is the risk of financial loss that could occur from lending funds to councils or council-controlled organisations.

LGFA provides debt funding to New Zealand councils and council-controlled organisations, subject to Board approval.

The Board have ultimate discretion on approving members.

All member organisations that borrow from LGFA:

- Provide debenture security in relation to their borrowing from LGFA and related obligations, and (if relevant), equity commitment liabilities to LGFA and (if relevant) guarantee liabilities to a security trustee approved for LGFA's creditors.
Where LGFA is the only lender to a council controlled organisation, a general security arrangement (GSA) might be used in place of a debenture security.
- Are required to become a party to a deed of guarantee and an equity commitment deed if the principal amount of their borrowings is at any time equal to, or greater than, NZD 20 million.
- Issue securities (bonds/floating rate notes/ commercial paper) to LGFA (ie. not enter into facility arrangements).
- Comply with their own internal borrowing policies.
- Comply with the financial covenants outlined in the table below, provided that:
 - Unrated borrowers or borrowers with a long-term credit rating lower than 'A' equivalent can have bespoke financial covenants that exceed the:
 - Lending policy covenants outlined in the following table only with the approval of the Board;
 - Foundation policy covenants outlined in the following table only with the approval of an Ordinary Resolution of shareholders.

On 30 June 2020, a Special General Meeting of Shareholders approved a change to the Net Debt/ Total Revenue covenant contained within the Foundation Policy Covenants. For the financial year ended June 2020 a covenant limit of 250% applied. This increased to 300% for the June 2021 and June 2022 years and then reduces by 5% for each of the subsequent years until 280% applies from the June 2026 year.

- Net debt is defined as total consolidated debt less liquid financial assets and investments.
- Total revenue is defined as cash earnings from rates, government grants and subsidies, user charges, interest, dividends, financial and other revenue and excludes non-government capital contributions, eg. developer contributions and vested assets.
- Borrowers with a long-term credit rating of 'A' equivalent or higher can have bespoke financial covenants that exceed the foundation policy covenants only with the approval of an Ordinary Resolution of shareholders.
- Any Board or Ordinary Resolution approval of bespoke financial covenants will only be provided after a robust credit analysis and any approval must also include bespoke reporting and monitoring arrangements.
- Non-compliance with the financial covenants will either preclude a member council from borrowing from LGFA or, in the case of existing council borrowers', trigger an event of review. An event of default will occur when (among other things) a council fails to meet an interest or principal payment (subject to grace periods). An event of default will enable LGFA to accelerate a council's repayment of loans.
- Financial covenants are measured on a parent council only basis, not consolidated group, unless requested by a parent council and approved by the Board.

Financial covenant	Lending policy covenants Unrated councils	Foundation policy covenants Rated councils
Net debt/ total revenue	<175%	<280%*
Net interest / total revenue	<20%	<20%
Net interest/ annual rates income	<25%	<30%
Liquidity	>110%	>110%

* From June 2026, refer description above.

Taupō Town Centre Transformation project.
Taupo District Council



- **Net interest** is defined as the amount equal to all interest and financing costs less interest income for the relevant period.
- **Annual rates income** is defined as the amount equal to the total revenue from any funding mechanism authorised by the Local Government (Rating) Act 2002 together with any revenue received from other local governments for services provided and for which the other local governments rate.
- **Liquidity** is defined as external debt plus committed loan facilities plus liquid investments divided by external debt.

Financial statements

Nga taukī pūtea

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Statement of comprehensive income

For the year ended ended 30 June 2023 in \$000s

	Note	2023	2022
Interest income		763,600	393,507
Interest expense		753,308	375,991
Net interest income	4	10,293	17,516
Other operating income	5	1,349	1,090
Total operating income		11,642	18,607
Operating expenses	6	9,138	7,933
Net operating profit		2,505	10,673
Total comprehensive income		2,505	10,673

These statements are to be read in conjunction with the notes to the financial statements.

Due to rounding, numbers presented in the financial statements and associated notes may not add up precisely to the reported totals.

The Board of Directors of the New Zealand Local Government Funding Agency Limited authorised these statements or issue on 28 August 2023.

Statement of changes in equity

For the year ended 30 June 2023 in \$000s

	Note	Share capital	Retained earnings	Total equity
Equity as at 30 June 2021		25,000	69,743	94,743
Net operating profit			10,673	10,673
Total comprehensive income for the year			10,673	10,673
Transactions with owners			-	-
Dividend paid on 3 September 2021			(857)	(857)
Equity as at 30 June 2022		25,000	79,560	104,560
Net operating profit			2,505	2,505
Total comprehensive income for the year			2,505	2,505
Transactions with owners			-	-
Dividend paid on 2 September 2022			(1,218)	(1,218)
Equity as at 30 June 2023	28	25,000	80,847	105,847


Craig Stobo, Director
Board Chair


Linda Robertson, Director
Chair, Audit and Risk Committee

Statement of financial position

As at 30 June 2023 in \$000s

	Note	2023	2022
Assets			
Financial assets			
Receivables	11	492	360
Cash and bank balances		226,222	158,033
Cash pledged as collateral		93,175	76
Marketable securities		1,127,879	1,491,148
Deposits		348,492	462,866
Derivatives in gain	10	63,845	94,767
Loans	12	16,313,562	14,041,908
Non-financial assets			
Prepayments		919	852
Other assets	13	58	156
Total assets		18,174,644	16,250,167
Equity			
Share capital	27	25,000	25,000
Retained earnings		80,847	79,560
Total equity		105,847	104,560
Liabilities			
Financial liabilities			
Payables and provisions	14	6,132	45,066
Bills	15	782,630	562,803
Bond repurchases	16	130,043	31,671
Derivatives in loss	10	1,628,316	1,206,175
Bonds	17	15,160,432	14,015,862
Borrower notes	18	360,348	283,180
Non-financial liabilities			
Other liabilities	19	896	850
Total liabilities		18,068,797	16,145,607
Total equity and liabilities		18,174,644	16,250,167

These statements are to be read in conjunction with the notes to the financial statements.

Statement of cash flows

For the year ended 30 June 2023 in \$000s

	Note	2023	2022
Cash flows from operating activities			
Cash applied to loans	12	(2,222,368)	(1,972,398)
Interest paid on bonds issued		(496,597)	(445,533)
Interest paid on bills issued		(25,942)	(5,141)
Interest paid on borrower notes		(4,886)	(1,063)
Interest paid on bond repurchases		(5,140)	(1,067)
Interest received from loans		600,415	191,228
Interest received from cash & cash equivalents		7,102	3,234
Interest received from marketable securities		38,465	14,108
Interest received from deposits		23,192	7,360
Net interest on derivatives		(134,734)	251,708
Cash proceeds from provision of standby facilities		1,349	1,090
Payments to suppliers and employees		(8,965)	(7,752)
Net cash flows from operating activities	32	(2,228,108)	(1,964,224)
Cash flows from investing activities			
Purchase of marketable securities		362,942	(734,412)
(Purchase)/maturity of deposits		22,664	192,800
Purchase of plant and equipment		-	-
Net cash flows from investing activities		385,606	(541,613)
Cash flows from financing activities			
Cash proceeds from bonds issued	17	1,327,354	2,229,503
Cash proceeds (outflows) from bills issued		219,827	(46,822)
Cash proceeds (outflows) from bond repurchases		98,180	(35,987)
Cash proceeds from borrower notes		68,750	57,246
Dividends paid		(1,218)	(857)
Cash applied to derivatives		197,795	68,952
Net cash flows from financing activities		1,910,690	2,272,036
Net (decrease) / increase in cash		68,188	(233,801)
Cash, cash equivalents at beginning of year		158,033	391,835
Cash, cash equivalents at end of year		226,222	158,033

These statements are to be read in conjunction with the notes to the financial statements.

Notes to the financial statements

1. Reporting entity

The New Zealand Local Government Funding Agency Limited (LGFA) is a company registered under the Companies Act 1993 and is subject to the requirements of the Local Government Act 2002. LGFA is controlled by participating councils and the Government as shareholders and is a council-controlled organisation as defined under section 6 of the Local Government Act 2002. LGFA is a limited liability company incorporated and domiciled in New Zealand.

The primary objective of LGFA is to optimise the debt funding terms and conditions for participating borrowers.

The registered address of LGFA is Level 8, City Chambers, 142 Featherston Street, Wellington Central, Wellington 6011.

The financial statements are as at and for the year ended 30 June 2023.

These financial statements were authorised for issue by the Directors on 28 August 2023.

2. Statement of compliance

LGFA is an FMC reporting entity under the Financial Markets Conduct Act 2013 (FMCA). These financial statements have been prepared in accordance with that Act and the Financial Reporting Act 2013. LGFA's bonds are quoted on the NZX Debt Market.

LGFA is a profit orientated entity as defined under the New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS).

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (NZ GAAP) and they comply with NZ IFRS and other applicable Financial Reporting Standard, as appropriate for Tier 1 for-profit entities. The financial statements also comply with International Financial Reporting Standards (IFRS).

3. Basis of preparation

Measurement base

The financial statements have been prepared on a historical cost basis modified by the revaluation of certain assets and liabilities.

The financial statements are prepared on an accrual basis.

Functional and presentation currency

The financial statements are presented in New Zealand dollars rounded to the nearest thousand,

unless separately identified. The functional currency of LGFA is New Zealand dollars.

Foreign currency conversions

Transactions denominated in foreign currency are translated into New Zealand dollars using exchange rates applied on the trade date of the transaction.

Changes in accounting policies

There have no changes to accounting policies.

Early adoption standards and interpretations

LGFA has not early adopted any standards.

Standards not yet adopted

LGFA does not consider any standards or interpretations in issue but not yet effective to have a significant impact on its financial statements.

Financial instruments

Financial assets

Financial assets, other than derivatives, are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Cash and cash equivalents include cash on hand, bank accounts and deposits with an original maturity of no more than three months.

Cash provided by LGFA as security for financial arrangements remains a financial asset of LGFA and is recognised as cash pledged as collateral in the Statement of Financial Position, separate from cash and cash equivalents

Purchases and sales of all financial assets are accounted for at trade date.

At each balance date, an expected credit loss assessment is performed for all financial assets and is calculated as either:

- Credit losses that may arise from default events that are possible within the next 12 months, where no significant increase in credit risk has arisen since acquisition of the asset, or
- Credit losses that may arise from default events that are possible over the expected life of the financial asset, where a significant increase in credit risk has arisen since acquisition of the asset.

Impairment losses on financial assets will ordinarily be recognised on initial recognition as a 12-month expected loss allowance and move to a lifetime expected loss allowance if there is a significant deterioration in credit risk since acquisition.

Financial liabilities

Financial liabilities, other than derivatives, are recognised initially at fair value less transaction costs and subsequently measured at amortised cost using the effective interest rate method.

Derivatives

Derivative financial instruments are recognised both initially and subsequently at fair value. They are reported as either assets or liabilities depending on whether the derivative is in a net gain or net loss position respectively.

Fair value hedge

Where a derivative qualifies as a hedge of the exposure to changes in fair value of an asset or liability (fair value hedge) any gain or loss on the derivative is recognised in profit and loss together with any changes in the fair value of the hedged asset or liability.

The carrying amount of the hedged item is adjusted by the fair value gain or loss on the hedged item in respect of the risk being hedged. Effective parts of the hedge are recognised in the same area of profit and loss as the hedged item.

Other assets

Property, plant and equipment

Items of property, plant and equipment are initially recorded at cost.

Depreciation is charged on a straight-line basis at rates calculated to allocate the cost or valuation of an item of property, plant and equipment, less any estimated residual value, over its remaining useful life.

Intangible assets

Intangible assets comprise software and project costs incurred for the implementation of the treasury management system. Capitalised computer software costs are amortised on a straight-line basis over the estimated useful life of the software (three to seven years). Costs associated with maintaining computer software are recognised as expenses.

Other liabilities

Employee entitlements

Employee entitlements to salaries and wages, annual leave and other similar benefits are recognised in the profit and loss when they accrue to employees.

Revenue

Interest income

Interest income is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. The method applies this rate to the principal outstanding to determine interest income each period.

Expenses

Expenses are recognised in the period to which they relate.

Interest expense

Interest expense is accrued using the effective interest rate method.

The effective interest rate exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. The method applies this rate to the principal outstanding to determine interest expense each period.

Income tax

LGFA is exempt from income tax under Section 14 of the Local Government Borrowing Act 2011.

Goods and services tax

All items in the financial statements are presented exclusive of goods and service tax (GST), except for receivables and payables, which are presented on a GST-inclusive basis. Where GST is not recoverable as input tax, then it is recognised as part of the related asset or expense.

The net amount of GST recoverable from, or payable to, the IRD is included as part of receivables or payables in the statement of financial position.

The net GST paid to, or received from the IRD, including the GST relating to investing and financing activities, is classified as a net operating cash flow in the statement of cash flows.

Commitments and contingencies are disclosed exclusive of GST.

Segment reporting

LGFA operates in one segment being funding of participating borrowers in New Zealand.

Judgements and estimations

The preparation of these financial statements requires judgements, estimates and assumptions that affect the application of policies and reported amounts. For example, the fair value of financial instruments depends critically on judgements regarding future cash flows, including inflation assumptions and the risk-free discount rate.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under

the circumstances. Actual results may differ from these estimates and these estimates and underlying assumptions are reviewed on an ongoing basis. Where these judgements significantly affect the amounts recognised in the financial statements they are described in the following notes.

The financial statements as at 30 June 2023 include estimates and judgements of the potential impact of

the proposed Affordable Waters Reform Programme on LGFA's financial position and performance. Whilst there has been no material impact on the estimates and judgements at the date these financial statements are authorised, it is noted that there is significant uncertainty with regards to the outcome of the proposed Affordable Waters Reform Programme on the local government sector.

Revenue and expenditure

4. Net interest income

For the year ended 30 June in \$000s	2023	2022
Interest income		
Cash and cash equivalents	10,280	3,527
Marketable securities	41,661	14,827
Lease liability	13	-
Deposits	21,392	7,854
Derivatives	-	140,956
Loans	690,256	226,342
Fair value hedge ineffectiveness	-	-
Total interest income	763,600	393,507
Interest expense		
Bills	25,942	5,141
Bond repurchase transactions	5,331	1,084
Lease liability	-	7
Derivatives	240,445	-
Bonds	468,411	366,044
Borrower notes	13,179	3,715
Total interest expense	753,308	375,991
Net interest income	10,293	17,516

5. Other operating income

As at 30 June 2023, LGFA had provided credit standby facilities totalling \$727 million (2022: \$662 million) to selected councils. As at balance date, there were no drawdowns outstanding under the facilities.

For the year ended 30 June in \$000s	2023	2022
Standby facilities fee income	1,349	1,090
Total other operating income	1,349	1,090

6. Operating expenses

Issuance and on-lending expenses are those costs that are incurred as a necessary expense to facilitate the ongoing issuance of LGFA debt securities.

For the year ended 30 June in \$000s	2023	2022
Issuance and on-lending expenses		
Approved issuer levy ¹	561	701
Rating agency fees	672	654
NZDMO facility fee	1,385	672
Legal fees – issuance	397	508
NZX	782	715
Trustee fees	110	108
Regulatory, registry, other fees	246	174
	4,154	3,531
Other operating expenses		
Information technology	656	807
Consultants	303	208
Directors fees	427	424
Insurance	96	90
Legal fees	287	137
Other expenses	437	309
Auditors' remuneration		
Statutory audit	121	110
Advisory services	-	-
Personnel	2,658	2,317
	4,984	4,403
Total operating expenses	9,138	7,933

1. The amount of Approved Issuer Levy is a function of the number of the offshore holders of the 2027 bond maturity.

Financial instruments

7. Financial instruments accounting policy

Financial instruments recognised in the statement of financial position at amortised cost.

Fair values of financial instruments not recognised in the statement of financial position at fair value are determined for note disclosure as follows:

Cash and bank, trade and other receivables, trade and other payables

The carrying value of cash and bank, trade and other receivables, trade and other payables approximate their fair value as they are short-term instruments.

Cash pledged as collateral

LGFA enters into derivative financial instruments for hedging purpose which may require LGFA to post collateral as security with counterparties.

In line with standard industry practice, collateral is provided for derivative transactions in accordance with Credit Support Annexes (CSAs). LGFA's practice is to annex each CSA to the International Swaps and Derivatives Association (ISDA) Master Agreement it has with derivative counterparties.

LGFA is required to pledge cash deposits at call in order to meet its obligations under the CSAs for derivative positions. The pledged assets will be returned to LGFA when the underlying transaction is terminated, but in the event of default the counterparty is entitled to apply the collateral in order to settle the outstanding liability.

Marketable securities and bonds

The fair value of bonds and marketable securities are determined using the quoted price for the instrument.

Deposits

The fair value for deposits is determined using a discounted cash flow analysis. The interest rates used to discount the estimated cash flows are based on current market interest rates.

Loans

The fair value of loans is determined using a discounted cash flow analysis. The interest rates used to discount the estimated cash flows are based on LGFA bond yields at the reporting date plus an appropriate credit spread to reflect the counterparty's credit risk.

Leases

The lease liability is recognised at the present value of the remaining lease payments, discounted using LGFA's incremental borrowing rate, with the corresponding right-of-use asset recognised as an equal amount.

Borrower notes

The fair value of borrower notes is determined using a discounted cash flow analysis. The interest rates used to discount the estimated cash flows are based on LGFA bond yields at the reporting date.

Fair value of financial assets and financial liabilities

The following table shows the fair value of financial assets and financial liabilities, together with the carrying amounts shown in the statement of financial position.

As at 30 June 2023 in \$000s	Financial liabilities at amortised cost	Financial assets at amortised cost	Financial assets measured at fair value in accordance with NZ IFRS 9	Fair value
Financial assets				
Receivables	-	492	-	492
Cash and bank balances	-	226,222	-	226,222
Cash pledged as collateral	-	93,175	-	93,175
Marketable securities	-	1,127,879	-	1,140,099
Deposits	-	348,492	-	441,713
Derivatives	-	-	63,845	63,845
Loans	-	16,313,562	-	16,512,334
	-	18,109,822	63,845	18,477,881
Financial liabilities				
Payables and provisions	6,132	-	-	6,132
Bills	782,630	-	-	782,566
Bond repurchases	130,043	-	-	130,044
Derivatives	-	-	1,628,316	1,628,316
Bonds	15,160,432	-	-	15,022,449
Borrower notes	360,348	-	-	347,825
	16,439,585	-	1,628,316	17,917,332

As at 30 June 2022 in \$000s	Financial liabilities at amortised cost	Financial assets at amortised cost	Financial assets measured at fair value in accordance with NZ IFRS 9	Fair value
Financial assets				
Receivables	-	360	-	360
Cash and bank balances	-	158,033	-	158,033
Cash pledged as collateral	-	76	-	76
Marketable securities	-	1,491,148	-	1,597,633
Deposits	-	462,866	-	462,859
Derivatives	-	-	94,767	94,767
Loans	-	14,041,908	-	14,188,283
	-	16,154,392	94,767	16,502,012
Financial liabilities				
Payables and provisions	45,066	-	-	45,066
Bills	562,803	-	-	562,498
Bond repurchases	31,671	-	-	31,671
Derivatives	-	-	1,206,175	1,206,175
Bonds	14,015,862	-	-	14,028,971
Borrower notes	283,180	-	-	276,085
	14,938,582	-	1,206,175	16,150,466

8. Derivative financial instruments

Derivative financial instruments are the only instruments recognised in the statement of financial position at fair value.

Derivative financial instruments are valued under level 2 of the following hierarchy.

Level 1 – Quoted market prices: Fair value based on quoted prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques using observable market inputs: Fair value based on a valuation technique using other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – Valuation techniques using significant non-observable market inputs: Fair value based on a valuation technique using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of derivative financial instruments is determined using a discounted cash flow analysis. Interest rates represent the most significant assumption used in valuing derivative financial instruments. The interest rates used to discount estimated cash flows are based on the New Zealand dollar swap curves at the reporting date.

9. Hedge accounting

LGFA is exposed to interest rate risk from its borrowing, lending and investment activities and uses interest rate swaps to manage this risk. For hedge accounting purposes, LGFA has designated these swaps in fair value relationships to its fixed rate borrowings, loans and investments.

The following table shows the gain or loss on the hedging instrument and the hedged item attributable to the hedged risk for fair value hedge relationships.

As at 30 June in \$000s	2023 Gain/(loss)	2022 Gain/(loss)
Hedged items attributable to the hedged risk	(149,558)	(1,304,237)
Hedging instruments – interest rate swaps	149,558	1,304,237
Ineffectiveness recognised in profit or loss from fair value hedges	-	-

The gains or losses on the hedging instrument (interest rate swaps) and the hedged item (bonds, loans and investments) are mapped to the same fair value account. For this reason, the statement of comprehensive income will only report any ineffectiveness arising from the fair value hedge.

10. Offsetting

NZ IAS 32: Financial Instruments Presentation allows financial assets and liabilities to be offset only when there is a current legally enforceable right to set off the amounts and there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

LGFA does not offset any amounts.

The following table shows the amounts subject to an enforceable master netting arrangement or similar agreement that are not offset in the statement of financial position.

As at 30 June 2023 in \$000s	Derivative assets	Derivative liabilities
Gross amounts	63,845	1,628,316
Amounts offset	-	-
Carrying amounts	63,845	(63,845)
Amounts that don't qualify for offsetting	-	-
Financial assets & liabilities	(63,845)	(63,845)
Collateral	-	(93,175)
Net amount	-	1,471,295

As at 30 June 2022 in \$000s	Derivative assets	Derivative liabilities
Gross amounts	94,767	1,206,175
Amounts offset	-	-
Carrying amounts	94,767	(94,767)
Amounts that don't qualify for offsetting	-	-
Financial assets & liabilities	(94,767)	(94,767)
Collateral	-	(76)
Net amount	-	1,111,332

11. Receivables

As at 30 June in \$000s	2023	2022
Trade debtors	492	360
Total receivables	492	360

12. Loans

As at 30 June in \$000s	2023 Short-term loans	Loans	2022 Short-term loans	Loans
Ashburton District Council	12,110	74,243	12,048	78,898
Auckland Council	-	3,225,659	-	3,413,415
Bay of Plenty Regional Council	57,428	161,353	25,651	167,941
Buller District Council	-	20,030	-	20,015
Canterbury Regional Council	10,116	65,272	4,018	75,214
Carterton District Council	-	17,523	-	14,762
Central Hawkes Bay District Council	4,072	38,314	2,024	20,107
Central Otago District Council	20,117	5,072	5,024	-
Christchurch City Council	-	2,200,409	2,017	2,036,724
Clutha District Council	7,554	62,905	5,532	32,394
Dunedin City Treasury	-	126,119	-	-
Far North District Council	-	91,984	-	71,822
Gisborne District Council	-	126,028	-	86,095
Gore District Council	8,556	41,915	6,035	29,631
Greater Wellington Regional Council	-	678,358	-	576,343
Grey District Council	3,990	26,799	3,980	26,717
Hamilton City Council	-	803,843	-	633,049
Hastings District Council	-	294,992	-	237,990
Hauraki District Council	-	62,620	-	43,212
Hawkes Bay Regional Council	25,313	55,262	-	37,992
Horizons Regional Council	9,936	51,871	11,984	49,771
Horowhenua District Council	15,175	151,192	11,001	127,395
Hurunui District Council	8,092	38,435	8,033	30,147
Hutt City Council	-	373,239	-	256,607
Invercargill City Council	55,448	68,788	12,845	68,725
Invercargill City Holdings Ltd	12,323	78,514	22,076	68,354
Kaikoura District Council	-	5,346	-	5,331
Kaipara District Council	-	44,545	-	44,229
Kapiti Coast District Council	-	277,935	-	256,128
Kawerau District Council	-	2,024	-	-
Mackenzie District Council	3,001	8,086	10,002	-
Manawatu District Council	15,136	79,502	11,559	77,725
Marlborough District Council	21,241	131,594	37,325	100,289
Masterton District Council	-	52,336	-	50,260
Matamata-Piako District Council	-	45,520	-	38,191
Napier City Council	-	10,014	-	-
Nelson City Council	-	186,666	-	140,581
New Plymouth District Council	10,114	221,668	-	170,350

As at 30 June in \$000s	2023 Short-term loans	Loans	2022 Short-term loans	Loans
Northland Regional Council	-	18,565	-	14,147
Opotiki District Council	-	9,557	-	7,073
Otago Regional Council	46,665	104,177	66,715	48,443
Otorohanga District Council	6,052	-	-	4,028
Palmerston North City Council	-	214,483	-	187,872
Porirua City Council	-	198,906	-	172,335
Queenstown Lakes District Council	56,007	454,003	50,275	241,015
Rangitikei District Council	-	31,207	-	19,157
Rotorua District Council	1,889	351,358	43,112	245,298
Ruapehu District Council	8,050	42,130	8,020	29,557
Selwyn District Council	-	116,198	-	75,343
South Taranaki District Council	-	117,428	-	112,566
South Waikato District Council	-	44,457	4,874	34,171
Southland District Council	-	21,960	-	16,899
South Wairarapa District Council	-	29,148	-	26,537
Stratford District Council	2,030	31,858	6,027	26,299
Taranaki Regional Council	-	19,652	-	14,587
Tararua District Council	4,047	53,778	-	51,244
Tasman District Council	25,515	246,751	24,193	198,190
Taupo District Council	-	146,271	-	125,522
Tauranga City Council	-	823,933	-	648,528
Thames-Coromandel District Council	-	67,813	-	73,365
Timaru District Council	19,456	187,561	28,724	136,516
Upper Hutt City Council	-	113,212	-	91,421
Waikato District Council	9,975	111,225	-	95,454
Waikato Regional Council	5,120	25,276	-	25,120
Waimakariri District Council	-	181,960	-	170,903
Waimate District Council	-	3,540	-	-
Waipa District Council	20,010	207,374	25,530	124,377
Wairoa District Council	8,015	11,109	-	10,062
Waitaki District Council	8,978	33,280	4,491	20,583
Waitomo District Council	4,071	24,204	4,017	24,092
Wellington City Council	-	1,178,503	-	967,101
West Coast Regional Council	3,243	9,991	3,761	6,616
Western Bay Of Plenty District Council	-	80,992	-	70,366
Westland District Council	-	27,078	-	29,933
Westland Holdings Ltd	1,618	5,456	-	-
Whakatane District Council	-	114,768	-	86,396
Whanganui District Council	7,557	110,179	7,523	99,522
Whangārei District Council	9,927	228,151	9,972	182,813
Fair value hedge adjustment	-	(37,850)	-	(36,332)
	547,944	15,765,618	478,385	13,563,522

As at 30 June 2023, \$2,512 million of loans are due to mature within 12 months. This comprises all short-term loans and \$1,964 million of loans.

13. Other assets

As at 30 June in \$000s	2023	2022
Right-of-use lease asset	58	156
Total other assets	58	156

14. Payables and provisions

As at 30 June in \$000s	2023	2022
Loans/purchases to be advanced	5,000	44,000
Trade creditors	804	800
Credit provision	123	161
Other provisions	205	105
Total payables	6,132	45,066

15. Bills

As at 30 June 2023 in \$000's	Face value	Unamortised premium	Accrued interest	Total
7 July 2023	45,000	(32)	-	44,968
12 July 2023	100,000	(142)	-	99,858
19 July 2023	35,000	(87)	-	34,913
2 August 2023	25,000	(112)	-	24,888
11 August 2023	75,000	(442)	-	74,558
17 August 2023	20,000	(144)	-	19,856
8 September 2023	70,000	(713)	-	69,287
15 September 2023	55,000	(630)	-	54,370
22 September 2023	102,000	(1,277)	-	100,723
28 September 2023	40,000	(549)	-	39,451
11 October 2023	25,000	(381)	-	24,619
17 October 2023	5,000	(81)	-	4,919
8 November 2023	20,000	(397)	-	19,603
28 November 2023	50,000	(1,166)	-	48,834
6 December 2023	25,000	(609)	-	24,391
14 December 2023	50,000	(1,282)	-	48,718
20 December 2023	50,000	(1,325)	-	48,675
	792,000	(9,370)	-	782,630

As at 30 June 2022 in \$000's	Face value	Unamortised premium	Accrued interest	Total
7 July 2022	15,000	(4)	-	14,996
13 July 2022	70,000	(30)	-	69,970
19 July 2022	35,000	(33)	-	34,967
4 August 2022	25,000	(33)	-	24,967
10 August 2022	80,000	(167)	-	79,833
19 August 2022	20,000	(60)	-	19,940
30 August 2022	50,000	(201)	-	49,799
9 September 2022	68,000	(296)	-	67,704
14 September 2022	100,000	(538)	-	99,462
19 September 2022	27,000	(120)	-	26,880
6 October 2022	25,000	(148)	-	24,852
9 November 2022	25,000	(238)	-	24,762
7 December 2022	25,000	(329)	-	24,671
	565,000	(2,197)	-	562,803

16. Treasury stock and bond repurchases

Periodically, LGFA subscribes for LGFA bonds as part of its issuance process and holds these bonds as treasury stock. LGFA bonds held by LGFA as treasury stock are derecognised at the time of issue and no liability is recognised in the statement of financial position. As at 30 June 2023, \$1,100 million of LGFA bonds had been subscribed as treasury stock.

LGFA makes these treasury stock bonds available to banks authorised as its tender counterparties to borrow under short-term repurchase transactions. The objective of the bond lending facility is to assist with improving secondary market liquidity in LGFA bonds. Bonds lent to counterparties are disclosed as a separate stock lending liability on the face of the statement of financial position.

As at 30 June in \$000s	2023	2022
15 April 2024	16,619	1,456
15 April 2025	1,920	6,773
15 April 2026	-	5,395
15 April 2027	52,513	-
20 April 2029	19,437	7,390
15 May 2031	3,287	-
14 April 2033	1,750	4,566
15 May 2035	34,518	818
15 April 2037	-	5,272
	130,043	31,671

17. Bonds

Bonds on issue do not include \$1,100 million face value of issued LGFA bonds subscribed by LGFA and held as treasury stock. Refer Note 16: Treasury stock and bond repurchase transactions.

As at 30 June 2023 in \$000's	Face Value	Unamortised premium	Accrued interest	Fair value hedge adjustment	Total
Fixed interest bonds					
15 April 2024	2,218,000	(2,151)	10,499		
15 April 2025	2,409,000	(36,176)	13,937		
15 April 2026	2,155,000	(54,361)	6,801		
15 April 2027	2,011,000	68,977	19,039		
15 May 2028	1,423,000	(60,216)	4,089		
20 April 2029	1,722,000	(83,580)	5,081		
15 May 2030	1,000,000	(17,002)	5,747		
15 May 2031	1,120,000	(60,338)	3,218		
14 April 2033	1,350,000	33,003	10,070		
15 May 2035	450,000	(7,728)	1,724		
15 April 2037	820,000	(41,281)	3,450		
Total	16,678,000	(260,853)	83,656	(1,340,372)	15,160,432

As at 30 June 2022 in \$000's	Face Value	Unamortised premium	Accrued interest	Fair value hedge adjustment	Total
Fixed interest bonds					
15 April 2023	1,830,000	25,117	21,175		
15 April 2024	1,998,000	5,625	9,458		
15 April 2025	1,679,000	(13,379)	9,714		
15 April 2026	1,815,000	(31,599)	5,728		
15 April 2027	1,751,000	85,460	16,577		
15 May 2028	1,270,000	(53,384)	3,650		
20 April 2029	1,362,000	(21,893)	4,019		
15 May 2031	850,000	(19,801)	2,443		
14 April 2033	1,290,000	43,486	9,622		
15 May 2035	400,000	2,166	1,533		
15 April 2037	730,000	(12,837)	3,072		
Total fixed interest	14,975,000	8,962	86,989	(1,185,774)	13,885,177
Floating rate notes					
14 October 2022	130,000	(7)	692	-	130,684
Total	15,105,000	8,955	87,681	(1,185,774)	14,015,862

18. Borrower notes

Borrower notes are subordinated debt instruments which are required to be held by each local authority that borrows from LGFA in an amount equal to a fixed percentage of the aggregate borrowings by that local authority. The fixed percentage is 2.5% for loans issued from 1 July 2020. Prior to this date, the fixed percentage was 1.6%.

LGFA may convert borrower notes into redeemable shares if it has made calls for all unpaid capital to be paid in full and the Board determines it is still at risk of imminent default.

19. Other liabilities

As at 30 June in \$000s	2023	2022
Lease liability	58	156
Accruals	838	694
Total receivables	896	850

20. Operating leases

As at 30 June in \$000s	2023	2022
Less than one year	58	66
Between one and five years	-	90
Total non-cancellable operating leases	58	156

Risk management

21. Financial risk management

The Board of Directors has overall responsibility for carrying out the business of LGFA in accordance with risk management policies, including those relating to investing, lending, borrowing and treasury activities. The use of financial instruments exposes LGFA to financial risks, the most significant being market risk, credit risk, and liquidity risk. The exposure and management of these risks is outlined below.

22. Market risk

Market risk is the risk that changes in market prices will affect LGFA's income or value of financial instruments. The most significant market risk which LGFA is exposed to is interest rate risk. LGFA has no significant exposure to foreign exchange risk.

23. Interest rate risk

Interest rate risk is the risk that future cash flows or the fair value of financial instruments will decrease because of a change in market interest rates. LGFA is exposed to interest rate risk through its interest-bearing financial assets and liabilities.

Interest rate risk is managed using Value at Risk (VaR) and Partial Differential Hedge (PDH) limits to mitigate the potential change in value of the balance sheet due to changes in interest rates. PDH risk measures the sensitivity of a portfolio to a one basis point change in underlying interest rates, whereas VaR measures the expected loss for a given period with a given confidence.

The table below indicates the earliest period in which the interest-bearing financial instruments reprice.

As at 30 June 2023 in \$000s	Face value	Less than 6 months	6 months - 1 year	1-2 years	2-5 years	Over 5 years
Financial assets						
Cash and bank Balances	226,222	226,222	-	-	-	-
Marketable securities	1,150,805	540,532	154,418	104,273	351,582	-
Deposits	447,115	447,115	-	-	-	-
Loans	16,201,725	13,382,721	363,171	370,400	1,418,820	666,614
Financial liabilities						
Bills	(792,000)	(792,000)	-	-	-	-
Bond repurchases	(129,833)	(129,833)	-	-	-	-
Derivatives	-	(13,758,700)	1,843,500	2,031,200	4,145,000	5,739,000
Bonds	(16,678,000)	-	(2,218,000)	(2,409,000)	(5,589,000)	(6,462,000)
Borrower notes	(338,809)	(277,881)	(6,110)	(7,492)	(32,191)	(15,135)
Total	87,225	(361,825)	136,979	89,381	294,211	(71,521)

As at 30 June 2022 in \$000s	Face value	Less than 6 months	6 months - 1 year	1-2 years	2-5 years	Over 5 years
Financial assets						
Cash and bank Balances	158,033	158,033	-	-	-	-
Marketable securities	1,503,175	533,296	401,624	174,200	394,055	-
Deposits	461,649	441,649	20,000	-	-	-
Loans	13,975,845	11,652,617	327,675	266,900	976,700	751,953
Financial liabilities						
Bills	(565,000)	(565,000)	-	-	-	-
Bond repurchases	(31,653)	(31,653)	-	-	-	-
Derivatives	-	(12,419,250)	1,583,750	1,645,500	3,895,200	5,294,800
Bonds	(15,105,000)	(130,000)	(1,830,000)	(1,998,000)	(5,245,000)	(5,902,000)
Borrower notes	(270,059)	(223,289)	(4,574)	(5,557)	(19,932)	(16,707)
Total	126,991	(583,597)	498,476	83,044	1,023	128,046

Interest rate sensitivity

Changes in interest rates impact the fair value of fixed rate assets and liabilities, cash flows on floating rate assets and liabilities, and the fair value and cash flows of interest rate swaps. A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss and equity by the amounts shown in the following table. This analysis assumes that all other variables remain constant.

For the period ending 30 June in \$000s	2023		2022	
	100 bps increase \$000s	100 bps decrease \$000s	100 bps increase \$000s	100 bps decrease \$000s
Fair value sensitivity analysis				
Fixed rate assets	-	-	-	-
Fixed rate liabilities	547,192	(557,506)	518,112	(529,330)
Derivative financial instruments	(547,324)	557,646	(517,469)	528,667
	(132)	140	643	(664)
Cash flow sensitivity analysis				
Variable rate assets	132,093	(132,093)	115,784	(115,784)
Variable rate liabilities	(2,775)	2,775	(3,541)	3,541
Derivative financial instruments	(137,537)	137,537	(124,063)	124,063
	(8,219)	8,219	(11,820)	11,820

24. Credit risk

Credit risk is the risk of financial loss if a counterparty to a financial instrument fails to meet its contractual obligations. LGFA is exposed to credit risk through its lending and investing activities.

Credit risk associated with lending activities is managed by requiring members that borrow from LGFA to meet specific credit lending criteria and to provide security against the borrowing. LGFA's credit risk framework restricts credit exposures to specific counterparties.

Credit risk associated with investing activities, excluding on-lending, is managed by only investing with New Zealand Government Agencies or counterparties that meet a minimum credit rating of A (Standard & Poor's equivalent). LGFA's credit risk framework limits concentrations of credit risk for any single counterparty.

Exposure to credit risk

LGFA monitors the concentration of credit risk by the type of counterparty. The following table shows the carrying value and maximum exposure to credit risk at the reporting date, before taking account of collateral or other credit enhancements, for significant counterparty types.

As at 30 June 2023 in \$000s	NZ government agencies	NZ councils	NZ registered banks	Other counter- parties	Fair Value hedge adjustment	Total carrying value
Financial assets						
Receivables	-		-	492		492
Cash and bank balances	223,783	-	2,439	-		226,222
Cash pledged as collateral	93,175					93,175
Marketable securities	79,082	16,950	347,933	706,787	(22,873)	1,127,879
Deposits	(93,175)	-	436,739	4,929		348,492
Derivatives	(1,468,363)	-	(96,108)	-		(1,564,470)
Loans	-	16,351,411	-	-	(37,850)	16,313,562
	(1,165,498)	16,368,361	691,002	712,208	(60,722)	16,545,351

As at 30 June 2022 in \$000s	NZ government agencies	NZ councils	NZ registered banks	Other counter- parties	Fair Value hedge adjustment	Total carrying value
Financial assets						
Receivables	-		-	360		360
Cash and bank balances	156,331	-	1,702	-		158,033
Cash pledged as collateral	76					76
Marketable securities	239,937	29,235	331,290	910,038	(19,351)	1,491,148
Deposits	-	-	377,463	85,403		462,866
Derivatives	(1,111,408)	-	-	-		(1,111,408)
Loans	-	14,078,239	-	-	(36,331)	14,041,908
	(715,064)	14,107,474	710,455	995,801	(55,682)	15,042,984

Collateral and credit enhancements

LGFA holds collateral against borrowings from councils in the form of debenture securities and guarantees.

Credit quality of financial assets

All financial assets are neither past due nor impaired. The carrying value of the financial assets is expected to be recoverable.

25. Liquidity risk

Liquidity risk is the risk that LGFA will encounter difficulty in meeting the obligations of its financial

liabilities. LGFA manages liquidity risk by holding cash and a portfolio of liquid assets to meet obligations when they fall due. LGFA is required by policy to maintain sufficient liquidity (comprising a committed liquidity facility and holdings of cash and liquid investments) to meet all operating and funding commitments over a rolling 12-month period.

The Treasury (New Zealand Debt Management) provides a committed liquidity facility that LGFA can draw upon to meet any exceptional and temporary liquidity shortfall. As at 30 June 2023, the undrawn committed liquidity facility was \$1,500 million (2022: \$1,300 million). The facility is due to expire in December 2031.

26. Contractual cash flows of financial instruments.

The following table shows the contractual cash flows associated with financial assets and liabilities.

As at 30 June 2023 in \$000s	On demand	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total contractual cash flows	Total carrying value
Financial assets							
Receivables	492	-	-	-	-	492	492
Cash and bank balances	226,222	-	-	-	-	226,222	226,222
Cash pledged as collateral	93,175	-	-	-	-	93,175	93,175
Marketable securities	-	168,607	350,627	709,893	-	1,229,127	1,127,879
Deposits	-	209,258	145,558	-	-	354,816	348,492
Loans	-	676,189	2,722,811	10,726,760	6,001,820	20,127,580	16,313,562
Financial liabilities							
Payables and provisions	(6,132)	-	-	-	-	(6,132)	(6,132)
Bills	-	(567,000)	(225,000)	-	-	(792,000)	(782,630)
Bond repurchases	-	(130,215)	-	-	-	(130,215)	(130,043)
Bonds	-	-	(2,662,170)	(9,221,173)	(7,131,780)	(19,015,123)	(15,160,432)
Borrower notes	-	(1,549)	(40,931)	(220,864)	(178,502)	(441,846)	(360,348)
Derivatives	-	(210,678)	(254,986)	(1,243,521)	(807,012)	(2,516,197)	(1,564,470)
	313,757	144,611	35,909	751,096	(2,115,474)	(870,101)	105,766

As at 30 June 2022 in \$000s	On demand	Up to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total contractual cash flows	Total carrying value
Financial assets							
Receivables	360	-	-	-	-	360	360
Cash and bank balances	158,033	-	-	-	-	158,033	158,033
Cash pledged as collateral	76	-	-	-	-	76	76
Marketable securities	-	199,206	473,654	834,261	-	1,507,122	1,491,148
Deposits	-	322,580	142,572	-	-	465,151	462,866
Loans	-	405,638	2,296,504	7,921,322	5,316,424	15,939,887	14,041,908
Financial liabilities							
Payables and provisions	(45,066)	-	-	-	-	(45,066)	(45,066)
Bills	-	(490,000)	(75,000)	-	-	(565,000)	(562,803)
Bond repurchases	-	(31,681)	-	-	-	(31,681)	(31,671)
Bonds	-	(807)	(2,398,906)	(8,336,675)	(6,560,835)	(17,297,223)	(14,015,862)
Borrower notes	-	(2,194)	(32,788)	(149,518)	(135,615)	(320,116)	(283,180)
Derivatives	-	(74,548)	58,917	(198,031)	(180,497)	(394,159)	(1,111,408)
	113,403	328,192	464,952	71,359	(1,560,523)	(582,617)	104,403

Capital and dividends

27. Share capital

As at 30 June 2023, LGFA had 45 million ordinary shares on issue, 20 million of which remain uncalled. All ordinary shares rank equally with one vote attached to each ordinary share. Ordinary shares have a face value of \$1 per share.

28. Shareholder information

Registered holders of equity securities as at 30 June	2023		2022	
Minister of Finance and Minister for Local Government	5,000,000	11.1%	5,000,000	11.1%
Auckland Council	3,731,960	8.3%	3,731,960	8.3%
Christchurch City Council	3,731,960	8.3%	3,731,960	8.3%
Hamilton City Council	3,731,960	8.3%	3,731,960	8.3%
Bay of Plenty Regional Council	3,731,958	8.3%	3,731,958	8.3%
Greater Wellington Regional Council	3,731,958	8.3%	3,731,958	8.3%
Tasman District Council	3,731,958	8.3%	3,731,958	8.3%
Tauranga City Council	3,731,958	8.3%	3,731,958	8.3%
Wellington City Council	3,731,958	8.3%	3,731,958	8.3%
Western Bay of Plenty District Council	3,731,958	8.3%	3,731,958	8.3%
Whangārei District Council	1,492,784	3.3%	1,492,784	3.3%
Hastings District Council	746,392	1.7%	746,392	1.7%
Marlborough District Council	400,000	0.9%	400,000	0.9%
Selwyn District Council	373,196	0.8%	373,196	0.8%
Gisborne District Council	200,000	0.4%	200,000	0.4%
Hauraki District Council	200,000	0.4%	200,000	0.4%
Horowhenua District Council	200,000	0.4%	200,000	0.4%
Hutt City Council	200,000	0.4%	200,000	0.4%
Kapiti Coast District Council	200,000	0.4%	200,000	0.4%
Manawatu District Council	200,000	0.4%	200,000	0.4%
Masterton District Council	200,000	0.4%	200,000	0.4%
New Plymouth District Council	200,000	0.4%	200,000	0.4%
Otorohanga District Council	200,000	0.4%	200,000	0.4%
Palmerston North District Council	200,000	0.4%	200,000	0.4%
South Taranaki District Council	200,000	0.4%	200,000	0.4%
Taupo District Council	200,000	0.4%	200,000	0.4%
Thames-Coromandel District Council	200,000	0.4%	200,000	0.4%
Waimakariri District Council	200,000	0.4%	200,000	0.4%
Waipa District Council	200,000	0.4%	200,000	0.4%
Whakatane District Council	200,000	0.4%	200,000	0.4%
Whanganui District Council	200,000	0.4%	200,000	0.4%
	45,000,000	100%	45,000,000	100%

29. Capital management

LGFA's capital is equity, which comprises share capital and retained earnings. The objective of managing LGFA's equity is to ensure LGFA achieves its goals and objectives for which it has been established, whilst remaining a going concern.

30. Dividend

LGFA paid a dividend of \$1,217,500 on 2 September 2022, being \$0.0487 per paid up share (2022: \$856,500 on 3 September 2021, being \$0. 03426 per paid up share).

31. Capital commitments

As at 30 June 2023, there are no capital commitments.

Other Notes

32. Reconciliation of net profit to net cash flow from operating activities

For the year ended 30 June in \$000s	2023	2022
Net profit/(loss) for the period	2,505	10,673
Cash applied to loans	(2,222,368)	(1,972,398)
Non-cash adjustments		
Amortisation and depreciation	(8,417)	(2,527)
Working capital movements		
Net change in trade debtors and receivables	96	(148)
Net change in prepayments	(67)	(169)
Net change in accruals	144	345
Net Cash From Operating Activities	(2,228,108)	(1,964,224)

33. Contingencies

There are no contingent liabilities at balance date.

34. Related parties

Identity of related parties

LGFA is related to the councils set out in the Shareholder Information in note 12. LGFA operates under an annual Statement of Intent that sets out the intentions and expectations for LGFA's operations and lending to participating borrowers. Shareholding councils, and non-shareholder councils who borrow more than \$20 million, are required to enter into a guarantee when they join or participate in LGFA. The guarantee is in respect of the payment obligations of other guaranteeing councils to LGFA (cross guarantee) and of LGFA itself.

Related party transactions

LGFA was established for the purpose of raising funds from the market to lend to member borrowers. The lending to individual councils is disclosed in note 12, and interest income recognised on this lending is

shown in the statement of comprehensive income. The purchase of LGFA borrower notes by participating borrowers. Refer note 18. The Treasury (New Zealand Debt Management) provides LGFA with a committed credit facility and is LGFA's derivatives counterparty.

Transactions with key management personnel:

Salaries \$1,239,462 (2022: \$1,016,801) Fees paid to directors are disclosed in operating expenses in Note 6.

35. Subsequent events

On 28 August 2023, the Directors of LGFA declared a dividend of \$1,712,500 (\$0.0685 per paid up share). Subsequent to balance date, LGFA has issued \$420 million in NZD bonds and AUD 1 billion in AUD bonds.



INDEPENDENT AUDITOR'S REPORT

TO THE READERS OF NEW ZEALAND LOCAL GOVERNMENT FUNDING AGENCY LIMITED'S FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION FOR THE YEAR ENDED 30 JUNE 2023

The Auditor-General is the auditor of New Zealand Local Government Funding Agency Limited (the company). The Auditor-General has appointed me, David Gates, using the staff and resources of KPMG, to carry out the audit of the financial statements and performance information of the company on his behalf.

Opinion

We have audited:

- the financial statements of the company on pages 64 to 87, that comprise the statement of financial position as at 30 June 2023, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date and the notes to the financial statements that include accounting policies and other explanatory information; and
- the performance information of the company on pages 10 to 15.

In our opinion:

- the financial statements of the company on pages 64 to 87:
 - present fairly, in all material respects:
 - its financial position as at 30 June 2023 and
 - its financial performance and cash flows for the year then ended; and
 - comply with generally accepted accounting practice in New Zealand in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS); and
- the performance information of the company on pages 10 to 15 presents fairly, in all material respects, the company's actual performance compared against the performance targets and other measures by which performance was judged in relation to the company's objectives for the year ended 30 June 2023.

Our audit was completed on 28 August 2023. This is the date at which our opinion is expressed.

The basis for our opinion is explained below, and we draw attention to the inherent uncertainties in the measurement of greenhouse gas emissions. In addition, we outline the responsibilities of the Board of Directors and our responsibilities relating to the financial statements and the performance information, we comment on other information, and we explain our independence.

Basis for our opinion

We carried out our audit in accordance with the Auditor-General's Auditing Standards, which incorporate the Professional and Ethical Standards and the International Standards on Auditing (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board. Our responsibilities under those standards are further described in the Responsibilities of the auditor section of our report.

We have fulfilled our responsibilities in accordance with the Auditor-General's Auditing Standards.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Inherent uncertainties in the measurement of greenhouse gas emissions

The company has chosen to include a measure of its greenhouse gas (GHG) emissions in its performance information. Without modifying our opinion and considering the public interest in climate change related information, we draw attention to page 14 of the annual report, which outlines the uncertainty in the reported GHG emissions. Quantifying GHG emissions is subject to inherent uncertainty because the scientific knowledge and methodologies to determine the emissions factors and processes to calculate or estimate quantities of GHG sources are still evolving, as are GHG reporting and assurance standards.



Materiality

The scope of our audit was influenced by our application of materiality. Materiality helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. The materiality for the financial statements as a whole was set at \$135 million determined with reference to a benchmark of company Total Assets. We chose the benchmark because, in our view, this is a key measure of the company's performance. In addition, we also assess whether other matters that come to our attention during the audit would in our judgement change or influence the decisions of a reasonably knowledgeable person ('qualitative' materiality).

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements in the current period. We summarise below those matters and our key audit procedures to address those matters in order that the readers as a body may better understand the process by which we arrived at our audit opinion. Our procedures were undertaken in the context of and solely for the purpose of our statutory audit opinion on the financial statements as a whole and we do not express discrete opinions on separate elements of the financial statements.

The key audit matter	How the matter was addressed in our audit
Existence and impairment of loans	
Refer to Note 12 to the Financial Statements. The loans LGFA has provided to local government make up over 89% of total assets. The loans are recognised at amortised cost and the nature of the counterparties is such that we do not consider these loans to be at high risk of significant misstatement. However, based on their materiality, and the judgement involved in assessing the credit worthiness of counterparties they are considered to be the area which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.	Our audit procedures included: <ul style="list-style-type: none">understanding the processes in place to assess borrowers and to record loan transactions. This included evaluating the control environment in place at LGFA.agreeing the 30 June 2023 loan balances to external confirmations received from NZ Clear.assessing the borrowers' compliance with financial covenants. We did not identify material differences in relation to the existence or impairment of loans.
Application of hedge accounting	
Refer to Note 9 of the Financial Statements. LGFA enters into derivatives (interest rate swaps) to manage interest rate risk related to issuing fixed rate borrowings, loans and investments. Fair value hedge accounting is applied where specific requirements are met around documentation of the hedge relationship and the relationship is demonstrated as being an effective hedge. Hedge accounting is complex, particularly in the area of whether the requirements (both initial and ongoing) for its application are met. Should the requirements for hedge accounting not be met, LGFA could experience significant volatility in the Statement of Comprehensive Income from changes in the fair value of the derivatives. Due to the size of the derivative positions and the complexity of hedge accounting we consider this to be a key audit matter.	Our audit procedures included: <ul style="list-style-type: none">reviewing LGFA's accounting policies related to financial instruments.agreeing the terms of the derivatives to the confirmation provided by the derivative counterparty.using our treasury valuation specialists we independently recalculated the fair value of all of the derivatives recorded by LGFA.ensuring the hedge documentation supporting the application of hedge accounting was in accordance with NZ IFRS 9 and the disclosures made in the financial statements were appropriate.determining that management's hedge effectiveness calculations were correctly performed using appropriate source information. We did not identify material differences in relation to the application of hedge accounting.



Responsibilities of the Board of Directors for the financial statements and the performance information

The Board of Directors is responsible on behalf of the company for preparing financial statements that are fairly presented and that comply with generally accepted accounting practice in New Zealand in accordance with NZ IFRS and IFRS. The Board of Directors is also responsible for preparing the performance information for the company.

The Board of Directors is responsible for such internal control as it determines is necessary to enable it to prepare financial statements and performance information that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements and the performance information, the Board of Directors is responsible on behalf of the company for assessing the company's ability to continue as a going concern. The Board of Directors is also responsible for disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless the Board of Directors intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors' responsibilities arise from the Local Government Act 2002 and the Financial Markets Conduct Act 2013.

Responsibilities of the auditor for the audit of the financial statements and the performance information

Our objectives are to obtain reasonable assurance about whether the financial statements and the performance information, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit carried out in accordance with the Auditor-General's Auditing Standards will always detect a material misstatement when it exists. Misstatements are differences or omissions of amounts or disclosures, and can arise from fraud or error. Misstatements are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of readers, taken on the basis of these financial statements and the performance information.

For the budget information reported in the financial statements and the performance information, our procedures were limited to checking that the information agreed to the company's statement of intent.

We did not evaluate the security and controls over the electronic publication of the financial statements and the performance information.

As part of an audit in accordance with the Auditor-General's Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. Also:

- We identify and assess the risks of material misstatement of the financial statements and the performance information, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- We obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- We evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- We evaluate the appropriateness of the reported performance information within the company's framework for reporting its performance.
- We conclude on the appropriateness of the use of the going concern basis of accounting by the Board of Directors and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists we are required to draw attention in our auditor's report to the related disclosures in the financial statements and the performance information or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.



- We evaluate the overall presentation, structure and content of the financial statements and the performance information, including the disclosures, and whether the financial statements and the performance information represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibilities arise from the Public Audit Act 2001.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included on pages 1 to 9, 16 to 63 and 92 to 97 but does not include the financial statements and the performance information, and our auditor's report thereon.

Our opinion on the financial statements and the performance information does not cover the other information and we do not express any form of audit opinion or assurance conclusion thereon.

In connection with our audit of the financial statements and the performance information, our responsibility is to read the other information. In doing so, we consider whether the other information is materially inconsistent with the financial statements and the performance information or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on our work, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independence

We are independent of the company in accordance with the independence requirements of the Auditor-General's Auditing Standards, which incorporate the independence requirements of Professional and Ethical Standard 1: International Code of Ethics for Assurance Practitioners issued by the New Zealand Auditing and Assurance Standards Board.

For the year ended 30 June 2023 and subsequently, the Chair of the company's Audit and Risk Committee is a member of the Auditor-General's Audit and Risk Committee. The Auditor-General's Audit and Risk Committee is regulated by a Charter that specifies that it should not assume any management functions. There are appropriate safeguards to reduce any threat to auditor independence, as the member of the Auditor-General's Audit and Risk Committee does not assume any management functions as part of their oversight role of the audit of the company.

Other than the audit, and the relationship with the Auditor-General's Audit and Risk Committee, we have no relationship with, or interests in, the company.

David Gates
KPMG
On behalf of the Auditor-General
Wellington, New Zealand

Other disclosures

He whākitanga anō

Donations

A donation of \$4,000 was made to Kauri 2000 for the year ended 30 June 2023.

Net Tangible Assets

Net tangible assets per \$1,000 of listed bonds as at 30 June 2023 is \$6.35 (2022: \$6.92).

Earnings per security

Earnings per \$1,000 of bonds on issue as at 30 June 2023 is \$0.15 (2022: \$0.71).

Amount per security of final dividends

Not applicable

Spread of Quoted Security holders

Holding Range	Holder Count	Holder Count %	Holding Quantity	Holding Quantity %
10,000 to 49,999	457	46	\$10,998,000	0.06
50,000 to 99,999	193	19	\$13,417,000	0.08
100,000 to 499,999	217	22	\$41,531,000	0.23
500,000 to 999,999	31	3	\$21,074,000	0.12
1,000,000 to 9,999,999,999,999	103	10	\$17,690,980,000	99.51
Total	1,001	1,001	\$17,778,000,000	100.00

Directory

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Except Public Holidays

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Auckland 1010



Taranaki's Yarrow Stadium is being redeveloped; the stadium has one of the best backdrops in Aotearoa New Zealand – Mt Taranaki. Taranaki Regional Council

GRI Index

Kuputohu GRI

Disclosure title	Reference/Disclosure
102-1. Name of the organisation	Page 17
102-2. Activities, brands, products and services	Pages 17-26
102-3. Location of headquarters	Page 93
102-4. Location of operations	Page 93
102-5. Ownership and legal form	Pages 16, 69
102-6. Markets served	Pages 4-7, 10-25
102-7. Scale of the organisation	Pages 4-7, 16-31, 66
102-8. Information on employees and other workers	Pages 48-49, 54-55
102-9. Supply chain	Pages 16-25, 34
102-10. Significant changes to the organization and its supply chain	None
102-11. Precautionary Principle or approach	Page 32
102-12. External initiatives	Pages 44-45
102-13. Membership of Associations	Financial Service Providers Register
102-14. Statement from senior decision-maker	Pages 4-7
102-16. Values, principles, standards, and norms of behaviour	Pages 44-47
102-18. Overview of Governance Structure	Pages 18-19
102-40. List of stakeholder groups	Pages 4-7, 10-15, 26-31, 57
102-41. Collective bargaining agreements	None
102-42. Identifying and selecting stakeholders	Pages 33
102-43. Approach to stakeholder engagement	Pages 33-43
102-44. Key topics and concerns raised	Page 33
102-45. Entities included in the consolidated financial statements	Page 68
102-46. Defining report content and topic Boundaries	Page 33
102-47. List of material topics	Pages 32-57
102-48. Restatements of information	None
102-49. Changes in reporting	None

The GRI Standards are the world's most widely used sustainability reporting standard. This is the second year LGFA has prepared its annual report in compliance with the GRI Standards. The following index is based on the GRI core option.

Disclosure title	Reference/Disclosure
102-50. Reporting period	1 July 2022 to 30 June 2023
102-51. Date of most recent report	2023 Annual Report
102-52. Reporting cycle	Annual
102-53. Contact point for questions regarding the report	lgfa@lgfa.org.nz
102-54. Claims of reporting in accordance with the GRI Standards	The report has been prepared in accordance with the GRI standards: core option
102-55. GRI content index	Pages 94-95
102-56. External assurance	None
Cost effective funding	Pages 4-7, 10-15, 27
Culture, ethics and governance	Pages 32-57
Transparency and disclosure	Pages 4-7, 32-57
Environmental and social impact of lending	Pages 4-7, 32-43
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Capability and development	Pages 4-7, 48
Carbon footprint	Pages 32-43
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305-1 Direct (Scope 1) GHG emissions	Page 43
305-2 Energy indirect (Scope 2) GHG emissions.	Page 43
305-3 Other indirect (Scope 3) GHG emissions.	Page 43
Health and Safety and Wellbeing	
403-1 Occupational health and safety management system	Page 48
403-9 Work-related injuries	Pages 14
403-10 Work-related ill health	Pages 14
Diversity and Inclusion	
405-1 Diversity of governance bodies and employees	Page 48
Capability and Development	
404-2 Programs for upgrading employee skills and transition assistance programs	Page 48

Glossary

Kuputaka

AIL	Approved Issuer Levy
Annual Plans	Annual budgets issued by councils ahead of their June financial year end
Bespoke Lending	Any lending to a council with a maturity date that does not match an LGFA bond maturity dated
bps	Basis points (100 basis points equals one percentage).
CCO	Council Controlled Organisation
CCTO	Council Controlled Trading Organisation
CAL	Climate Action Loans
Coverage Ratio	In a tender the amount of bids received divided by the amount of bonds on offer. The higher the Bod Coverage ratio the more demand there is
ESG	Environmental, social and governance
Financial Covenants	Four financial covenants that council must adhere to Debt/Revenue, Interest Expense to Rates Revenue, Interest Expense to Total Revenue, Liquidity. Annual attestation and if in breach then can be an event of repayment of loans.
Fitch	Credit rating agency who rates LGFA and a small number of councils
Foundation Policy Covenants	Within Shareholder Agreement – any changes require shareholder approval. Now mainly the financial covenants.
GHG	Greenhouse gas
GRI	Global Reporting Initiative
GSS	Green, Social and Sustainability
GSA	General security arrangement
Guarantee and Indemnity Deed	Joint and Several Guarantee with a side agreement that pro ratas the council guarantors obligations to that of proportionate share of rates revenue
Guarantor	Any council shareholder or any council who borrows more than \$20m is required to sign the Guarantee and Indemnity Deed.
IA	Internal audit
INFINZ	Institute of Finance Professionals
LAP	Liquid Assets Portfolio
LGFA Bills	Short dated securities (less than 1 year) issued by LGFA
LGFA Bonds	Fixed rate coupon bonds issued by LGFA with maturities between 2024 and 2037. Issued via tenders or syndication
Local Government Act 2002	Overarching legislation for Councils, CCOs and CCTOs

Local Government Borrowing Act 2011	Act that established LGFA
Multi Issuer Deed (MID)	Over arching borrowing document – accession of councils and CCOs, reps and warranties, financial covenants, BN conversion
NII	Net interest income
Non Guarantor	Any member council that is not a guarantor. Non-Guarantor member councils cannot borrow more than \$20m
NZD	New Zealand Dollar
NZDM	New Zealand Debt Management of the Treasury – our contact point for our Crown Liquidity Facility and derivative swap counterparty
NZDM Facility	Crown Liquidity Facility where we can drawdown up to \$1.5 billion of emergency funding (subject to certain conditions)
NZGB	New Zealand Government Bonds
PDH	Partial Differential Hedge
S&P	Standard and Poor's
Shareholders Agreement	Board, Shareholder Council appointments, sale of shares, voting rights and Foundation policies
SOI	Statement of Intent
Spread to NZGB	The basis point difference between LGFA Bonds and NZ Government Bonds. Investors will often use the spread the gauge when LGFA bonds are trading at a premium or discount
Spread to Swap	The basis point difference between LGFA Bonds and the swaps curve. The spread is often used as a proxy to gauge if LGFA bonds are being issued at a discount or premium
SSA	Supra and Sub Sovereign Agency issuers- same as Supras – they issue Kauri bonds in NZD. Examples are World Bank, Asian Development Bank, Kommunalbanken (LGFA Norway equivalent)
Swap	Interest rate derivative instruments transacted with the NZDM to hedge the balance sheet and convert fixed rate borrowing into floating rate exposures.
Syndication	LGFA issues Bonds by Syndication normally twice a year, if market conditions are favourable. Syndications provide diversity to LGFA's funding program, by offering an alternative funding tool to the scheduled bond tenders.
Taituarā	Formerly Society of Local Government Managers (SOLGM)
TCFD	Task Force on Climate Related Financial Disclosures
Tender	LGFA issues Bonds and Bills to the market in scheduled tenders, typically every six weeks of the financial year.
UN SDG	United Nations' Sustainable Development Goals
VaR	Value at risk
WSE	Water service entities



28 August 2023

Dear Shareholder

LGFA 2023 Annual Report

The LGFA Annual Report for the 12-month period to 30 June 2023 is now available from the LGFA website: [LGFA 2023 Annual Report](#)

We are pleased to highlight another positive year for LGFA that included several achievements.

1. Financial and Operational performance.

Financial performance was not as strong as previous years with Net Operating Profit of \$2.5 million slightly below SOI forecast but lower than the comparable year result. Our conservative approach of borrowing longer than our term of lending, combined with maintaining a large amount of liquid assets during a period of rising interest rates and volatile conditions, were key factors in our lower result for the year. We are expecting a strong bounce back in profitability in the coming year.

We met 16 out of 17 performance objectives and were awarded the New Zealand Issuer of the Year for 2022 by KangaNews.

2. We made longer dated borrowing options available to an increased number of council and CCO borrowers.

At 30 June 2023, LGFA had loans outstanding of \$16.31 billion, an increase of \$2.27 billion from previous year, with the longest dated loans out to 14 years (2037). Over the 12 months, we approved two new councils and two new CCO members, lifting total members to 77 councils and 3 CCOs. Over the past year, LGFA lent a record \$3.9 billion to the sector and provided 93% of the sector borrowing. We are appreciative of the ongoing support from our borrowing members.

3. New products and increasing focus on sustainability.

We made a further three Green, Social and Sustainable Loan (GSS) loans during the year and launched Climate Action Loans (CALs) for council and CCO members. By 30 June 2023 we had GSS loans of \$295 million to five councils and \$521 million of CALs to three councils which form our sustainable asset pool. In April 2023, we issued \$1.1 billion of a May 2030 Sustainable Financing Bond under our new Sustainable Financing Bond Framework, the proceeds of which are notionally allocated against the sustainable asset pool.



4. **A dividend payment of 6.85% for shareholders.**

The financial strength of LGFA has been affirmed with total assets of \$18.1 billion and shareholder equity of \$105.9 million as at 30 June 2023. A \$1,712,500 dividend has been declared by the LGFA Board for the year ended 30 June 2023 and a dividend notice will be sent to you shortly. The dividend rate is \$0.0685 per paid up share and will be paid to you on Friday 1 September.

Our Annual General Meeting (AGM) will be held on Thursday 23 November 2023 in Wellington (with a virtual attendance option). We will send out a Notice of AGM by Friday 29 September 2023.

Please do not hesitate to contact me if you have any comments or questions.

Kind regards



Mark Butcher
Chief Executive